PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)

Second Sitting

Tuesday 27 November 2018

(Afternoon)

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not later than

Saturday 1 December 2018

The Committee consisted of the following Members:

Chairs: † Ms Nadine Dorries, Mr George Howarth

† Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Badenoch, Mrs Kemi *(Saffron Walden)* (Con)
† Black, Mhairi *(Paisley and Renfrewshire South)* (SNP)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Charalambous, Bambos *(Enfield, Southgate)* (Lab)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Dowd, Peter *(Bootle)* (Lab)
† Ford, Vicky *(Chelmsford)* (Con)
† Jenrick, Robert *(Exchequer Secretary to the Treasury)*
† Keegan, Gillian *(Chichester)* (Con)
† Lamont, John *(Berwickshire, Roxburgh and Selkirk)* (Con)
† Lewis, Clive *(Norwich South)* (Lab)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Sobel, Alex *(Leeds North West)* (Lab/Co-op)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Syms, Sir Robert *(Poole)* (Con)
† Whately, Helen *(Faversham and Mid Kent)* (Con)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Colin Lee, Gail Poulton, Joanna Dodd, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 27 November 2018

(Afternoon)

[Ms Nadine Dorries *in the Chair*]

Finance (No.3) Bill

(Except clauses 5, 6, 8, 9 and 10; clause 15 and schedule 3; clause 16 and schedule 4; clause 19; clause 20; clause 22 and schedule 7; clause 23 and schedule 8; clause 38 and schedule 15; clauses 39 and 40; clauses 41 and 42; clauses 46 and 47; clauses 61 and 62 and schedule 18; clauses 68 to 78; clause 83; clause 89; clause 90; any new clauses or new schedules relating to tax thresholds or reliefs, the subject matter of any of clauses 68 to 78, 89 and 90, gaming duty or remote gaming duty, or tax avoidance or evasion)

2 pm

Clauses 3 and 4 ordered to stand part of the Bill.

Clause 7

Optional remuneration arrangements: arrangements for cars and vans

Peter Dowd (Bootle) (Lab): I beg to move amendment 17, in clause 7, page 5, line 2, at end insert—

‘(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on the motor vehicle industry in parts of the United Kingdom and regions of England and lay a report of that review before the House of Commons within six months of the passing of this Act.

(9) In this section—

“parts of the United Kingdom” means—

(a) England,

(b) Scotland,

(c) Wales, and

(d) Northern Ireland;

“regions of England” has the same meaning as that used by the Office of National Statistics.’

This amendment would require the Chancellor of the Exchequer to review the impact of clause 7 on the automotive industry, broken down by nations and regions.

The Chair: With this it will be convenient to discuss the following:

Amendment 18, in clause 7, page 5, line 2, at end insert—

‘(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on the availability and uptake of optional remuneration arrangements relating to cars and vans and lay a report of that review before the House of Commons within six months of the passing of this Act.’

This amendment would require the Chancellor of the Exchequer to review the impact of Clause 7 on the uptake of optional remuneration schemes relating to cars and vans.

Amendment 19, in clause 7, page 5, line 2, at end insert—

‘(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on tax receipts and lay a report of that review before the House of Commons within six months of the passing of this Act.’

This amendment would require the Chancellor of the Exchequer to review the revenue effects of Clause 7.

Amendment 22, in clause 7, page 5, line 2, at end insert—

‘(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on the vehicle hire sector and lay a report of that review before the House of Commons within six months of the passing of this Act.’

This amendment would require the Chancellor of the Exchequer to review the impact of clause 7 on the UK vehicle rental sector.

Clause stand part.

Peter Dowd: I hope everybody had a refreshing lunch and that not too much claret was drunk.

The Financial Secretary to the Treasury (Mel Stride): That is enough.

Peter Dowd: That is a nice start to the afternoon. I will turn to amendment 17 to 19 and 22 which, I must say at this stage, we will also push to a vote unless we have the acquiescence, capitulation or otherwise of the Minister after he has heard my words of wisdom. I hope he has even more divine intervention and inspiration this afternoon from his officials telling him to agree with me.

Clause 7 introduces further reforms to optional remuneration arrangements for cars and vans. The measure seeks to make two changes to the current regime, as outlined in the Treasury’s policy paper. First, it is designed to

“ensure that when a taxable car or van is provided through OpRA, the amount foregone, which is taken into account in working out the amount reportable for tax and National Insurance contributions purposes, includes costs connected with the car or van (such as insurance) which are regarded as part of the benefit in kind under normal rules”.

Secondly, this measure is also expected to

“adjust the value of any capital contribution towards a taxable car when the car is made available for only part of the tax year.”

I imagine that the Treasury’s line is that this seeks to ensure that the value of this benefit is connected only to cost, but we are concerned that these changes may further complicate pre-existing optional remuneration arrangements that are already in place for employers and employees to utilise company cars and vans. That in turn may be a deterrent, as some employers may consider that it is too much hassle or too bothersome, and that there is too much red tape, when it comes to offering such a scheme. Similarly, employees may decide that the risks and liabilities of taking up the offer of a company car or van scheme may be too high, and that under these circumstances both rentals and automotive sales may fall.

To put it as succinctly as I can—I accept that I am prone to being succinct, which is a fault of mine—the Opposition do not believe that it is in the interest of our economy, which is heavily reliant on the automotive sector for jobs, or that of workers, to make it harder for them to use a company car or van through an optional remuneration scheme. That is why we have tabled amendment 17, which would amend page 5, line 2 of the Bill and insert:

“The Chancellor of the Exchequer must review the effect of the provisions in this section on the motor vehicle industry in parts of the United Kingdom and regions of England and lay a report of that review before the House of Commons within six months of the passing of this Act”

as linked to the nations.

I accept that Government Members must recognise the clear link between automotive sales and their use as company cars or vans in optional remuneration arrangements. Work vehicles make a significant contribution to the automotive industry's more than £82 billion annual turnover and £20.2 billion of value added.

Bambos Charalambous (Enfield, Southgate) (Lab): Does my hon. Friend agree that further complicating the optional remuneration arrangements for employees who wish to use a company car or van could have an effect on the automotive sector as a whole? That would be terrible.

Peter Dowd: It would be. That goes to the heart of the point. We want to tease this issue out and have a review. I know we have raised a million and one issues for review, but that is as much as we can do in the current climate. That is what we want to do: we want to tease all these matters out.

Anneliese Dodds (Oxford East) (Lab/Co-op): Does my hon. Friend agree that a review would enable us to tease out some of the matters that were presented to us and to explore some of the expert information that has been provided to us? For example, the Institute of Chartered Accountants in England and Wales tax faculty said that the clause will lead to a tax charge so, for example, emergency repairs will be initially paid for or arranged by an employee and then met by the employer. If we had a review, we could look into that matter and others in more detail.

Peter Dowd: That organisation is always helpful, and it points us in the direction that the Government should go in. That goes to the point I am making.

Many proposals have come back to bite us, so we need a proper review to see how they are bedding in. For example, according to the Society of Motor Manufacturers and Traders, the automotive industry employs 168,000 people directly in manufacturing, and more than 856,000 are employed across the wider industry. It accounts for 12% of total UK exports of goods, and invests £3.65 billion each year in automotive research and development. More than 30 manufacturers build in excess of 70 models of vehicle in the UK, supported by 2,500 component providers and some of the world's most skilled engineers. The automotive industry represents 1% of all employment in the UK and 7% of all manufacturing. It is also one of the few industries in the United Kingdom that has had a huge productivity increase since the financial crisis. The manufacturing of motor vehicles went from 5.4% of UK manufacturing in 2007 to 8.1% in 2017. Those figures do not, however, reflect the role that the automotive industry play in communities across the nations and regions of the UK, and the impact that a fall in sales or rentals relating to optional remuneration might have.

Alex Sobel (Leeds North West) (Lab/Co-op): My hon. Friend is making an excellent speech in support of the communities around the country that are reliant on motor manufacturing, which include Tyne and Wear, Derby, Swindon and Merseyside. Does he think that the Government should undertake and publish a proper impact assessment on the communities that will be affected by the changes outlined?

Peter Dowd: Yes. That links to others issues. For example, my hon. Friend the Member for Ellesmere Port and Neston (Justin Madders) is having issues with the car factory in his constituency, where 200 jobs are threatened. These issues are all linked. When the industry is under threat, or there is a potential threat, even if it is not actually visible, we must take steps to ensure it does not appear on the horizon. Our proposal would help that process.

For example, the west midlands has by far the largest number of motor vehicle manufacturing employees of any UK region or country. There are 54,000 employees in the industry working in the west midlands. That is about one third of all motor industry employees in Great Britain. We have to take into account the fact that if fewer companies offer optional remuneration arrangements, that could directly affect jobs in that region. The Government's job is to plan and—they said this in their industrial strategy—to ensure we are prepared for all eventualities. Our proposal helps with that preparation.

The second-largest region for automotive manufacturing is the north-west, where my constituency is located. It employs 24,000 people and accounts for 7% of the total industry and 1% of all employment. I recognise that a slowdown in automotive sales could be related to a fall in the use of company cars and vans, and could cost workers their jobs. Members from Scotland, where the automotive industry accounts for around 4,000 jobs and 2% of the total UK manufacturing sector, and Members from Wales, where the automotive industry accounts for 9,000 jobs, feel the same. Similarly, any fall in the sale of rental cars and vans used in optional remuneration arrangements will have an impact on foreign direct investment into the UK, as there are now no British-owned mass car manufacturers operating in the United Kingdom. It comes back to the point made by an hon. Member about foreign direct investment. We do not want to put it off.

Clive Lewis (Norwich South) (Lab): Given the sounds being made by the car makers Nissan over Brexit uncertainty, it would be a most foolish approach if those safeguards were not taken, and if there were no proper impact assessment or analysis of the industry.

Peter Dowd: My hon. Friend is right. To some extent, that is part of the concern we have had about impact assessments and financial reviews on industry generally in relation to Brexit. This is part of the tapestry or mosaic of issues that we always have to keep to the fore if we are to protect jobs. All parties have said that they want Brexit for jobs and the economy. We have said it time after time, and this completely fits in with our policy of trying to protect jobs and our economy. Let us look to the future of how this might impact on an important part of our industry, rather than leaving it to chance.

The domestic automotive market is home to foreign volume car manufacturers, with other companies specialising in commercial or luxury brands, including Honda, which has almost doubled production at the Swindon plant—£240 million of investment into the Burnaston site was announced in March 2017. Jaguar Land Rover invested £400 million in a new engine plant, equipment and the expansion of its design centre in 2015. In October 2016, Nissan announced that it would

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produce two new models in Sunderland. Members on both sides of the Committee understand that uncertainty in an industry such as the automotive industry, which plans 10 or 15 years in advance, can be disastrous and cost jobs. We need only to look at the current uncertainty around Brexit, as I have indicated, to see that this is clearly the case. Large automotive companies express concern on a daily basis. My colleague the hon. Member for Oxford East receives regular representations from companies in her area who are deeply concerned about the future of the industry in the UK, and any fall in use of company cars will not add further confidence.

I accept that Government Members may accuse me of scaremongering, but figures from Her Majesty's Revenue and Customs showed that 940,000 employers paid benefits in kind—tax on a company car—in 2016-17. That was a 2% fall on the 960,000 recorded the previous financial year. The decline is not isolated—the number of company cars has decreased over the last 10 years.

2.15 pm

The issue is that there has not necessarily been a qualitative leap in the use of public transport. The muscle-bound transport system in this country is becoming even worse. It is not as if people have been coming out of cars and on to public transport, be it buses or trains. That has not necessarily happened. The amount of money being collected by the Treasury from taxes related to company cars or vans through optional remuneration has increased by more than 24% year on year—some £360 million—and we currently have some of the highest tax charges for company cars we have ever seen. The amount of national insurance contributions paid by employers who have company cars also increased. The amount of national insurance contributions paid by employers who have company cars also increased.

Employers paid £630 million in 2016-17 compared to £600 million the previous year, up 5%. Benefit in kind, tax and national insurance contributions were collectively worth £2.48 billion to the Treasury compared to £2.09 billion in 2015-16, which is an increase of about 19% or £390 million.

Compare that with 2013, when benefit in kind and national insurance contributions were worth £1.75 billion to the Treasury—some £730 million less—yet the number of employees with a company car was exactly the same, at 940,000. It is worth giving those figures a bit of thought. The record figure of £2.48 billion means that the average annual tax yield on a company car was £2,638 in 2016-17, compared with £2,166 in 2015-16. That is a 22%, or £472, year-on-year increase.

At the start of the decade in 2009-10, a company car was worth, on average, £1,680 in benefit in kind, and national insurance revenues to the Treasury were some £1.63 billion. That is £850 million less. The higher tax take between 2015-16 and 2016-17 can in part be explained by the increase reported in the taxable value over the same period. The taxable value of the company car benefit was worth £4.57 billion—up from £4.32 billion the previous year—according to HMRC's figures.

Similarly, the use of company cars and vans has been hit by the Government's changes to diesel and the drive towards environmental friendly cars, which should be considered in the review on the impact of these changes on the regions and nations.

There is little doubt that the consumer and political backlash against diesel has been devastating. The demand for new diesel cars in Britain nosedived by more than one third in March, generally the top selling month of the year, pushing down the total registration by 15.7%. The number of vehicle registrations fell to 479,000 in March, according to the Society of Motor Manufacturers and Traders. Once comprising half the market, diesels now account for less than one third of sales, having fallen by nearly 40%, from 101,000 in May 2016 to only 62,000 last month.

Companies that own and employees who lease diesel cars under optional remuneration schemes would not have been shielded from this disruption, as it may not be financially viable for businesses that have bought new vehicles or have entered into an agreement with third parties to return or sell the vehicle for the first three years. That would mean that employers may be stuck and unable to return diesel vehicles without facing an added cost.

If the Government have made a particular decision and there are unintended consequences, they should not fall to those people affected by it. Employee car and van schemes will also be affected by the growing market of electric vehicles. That is a welcome development. Although the Bill introduces a tax exemption for electric vehicle-charging points at work, it is clear that more needs to be done to address that transition. We believe the Government should push on that even more.

To return to my earlier point, if the Government continue to amend the regulations and rules governing the optional remuneration schemes, they will inadvertently deter any employees from taking up such schemes and employers from offering them. The situation is only heightened by the fact that too many employees do not understand or do not follow the Government tax changes that govern those particular schemes.

Take, for example, the reforms to optional remuneration arrangements introduced in the previous Finance Bill last year. Research by OSV found that more than one quarter—27%—of company car drivers were not aware of the tax changes the Government were making that would affect their company car. A similar study by Arval last year found that many small and medium-sized businesses were unaware of company car tax changes. While 70% of larger fleets with more than 50 vehicles said that they were aware of them, that figure dropped to 44% of medium-sized fleets with 10 to 49 vehicles, and to 35% of small fleets with one to nine vehicles.

That ignorance of changes to company car and van policy is deeply troubling. In some cases, it could easily lead to employees finding in the coming months, without any warning, that their net pay is below what they anticipated, as a result of those changes. Given that people are already hard pressed following a decade of low wage rises—the lowest for two centuries—every penny counts, and the Government should take that into account when introducing such policies.

The onus to know about such changes remains largely on the employer, who has a responsibility to sign off, but although some businesses will have calculated and worked with their employees to help them understand the financial implications of a company car or van where private use is allowed, explaining the option and consequences of making a capital contribution to obtain a better vehicle—

Clive Lewis: Will my hon. Friend give way?

Peter Dowd: Yes.

Clive Lewis: As I sit here listening to my hon. Friend describe the obscure way in which this tax is being implemented, I wonder whether it would it be fair to call it a stealth tax.

Peter Dowd: My hon. Friend makes a valid point. One could argue that it is a stealth tax, although I think what the Government have introduced is more like an incompetence tax. I am not sure they know the consequences of what they have unleashed, but I suspect my hon. Friend's use of the term "stealth tax" is pretty apposite.

We all know that employers will have invested in vehicles in good faith on the basis of those calculations, together with the comment from HMRC that that was the correct way to calculate charges. It is therefore to be expected that they will feel let down and perhaps even blindsided by these changes. The more I think about it, the more I think they will consider what the Government are introducing as a bit of a stealth tax.

The ICAEW found that, where vehicles with allowed private use are provided to employees under OpRAs, the clause will impose unexpected increases in tax and national insurance charges on employees and employers respectively. The only way to avoid those charges will be for the employer to dispose of the vehicle. That is likely to result in the employer receiving lower than expected proceeds if the vehicle is owned outright, or suffering financial penalties if the vehicle was acquired under an ongoing contract. It may also upset the employer-employee relationship, which might ultimately lead to both employee and employer leaving the scheme entirely.

That concern led the Opposition to table amendment 18, which we will press to a vote. The amendment seeks to insert the following subsection:

> "The Chancellor of the Exchequer must review the effect of the provisions in this section on the availability and uptake of optional remuneration arrangements relating to cars and vans and lay a report of that review before the House of Commons within six months of the passing of this Act."

In effect, it would require the Chancellor to publish a review of the impact of these changes on the number of employees choosing to enter into optional remuneration arrangements. The amendment goes to the heart of the Opposition's concern that the Government's constant tinkering and fiddling deters people from taking up such schemes and, no doubt, other schemes.

That feeds into the wider criticism of the Treasury—and Ministers, I have to say—as backed up by the Chartered Institute of Taxation, regarding the constant need to rework and reform measures. The perception is that this is happening all the time. That takes us back to the point raised by the Scottish National party's spokesperson about the need to tease out these issues in advance and put them into the domain. Let us tease them out and try to get a little bit of sense out of the mix. This amendment goes to the heart of our concerns, and this tinkering and fiddling about just confuses things more.

It is telling that the changes have come about not because of a new onus to reform optional remuneration schemes for the benefit of employees and employers, but rather to clean up the mistakes made in the previous Finance Act. In practical terms, that is what has happened. The Opposition have consistently called for the Government to take a more considered approach to taxation, including the introduction of Public Bill Committee witness sessions, as mentioned both previously and today. Were these concerns and those of the tax experts and advisers who have to implement the change taken seriously, Ministers would not have to come back to the House to redo their homework on every Finance Bill. This is my fourth Finance Bill—excluding the Taxation (Cross-border Trade) Bill—and that seems to be a regular occurrence. Instead, Ministers should be able to get it right first time, not just in relation to consultation but in enabling us to help them do their job.

The Chair: Order. You have made quite a few generalised remarks about consultation, Mr Dowd. It would be appreciated if you could keep your speech to the points of the amendment.

Peter Dowd: Thank you, Ms Dorries. The Minister considered the number of people who will be affected by the measure—1 million—to be rather small. The measure will have a disproportionate impact on van drivers and those who have company cars. The Treasury's impact assessment shows that the majority are male and, no doubt, from various backgrounds. The Opposition want to get these changes right, which is why we are pushing for the Minister to report back to the House after six months and to offer clear evidence as to why they have had a negative impact on the number of employees able to use a company car or van under these schemes.

Given the lack of knowledge shown by small and medium-sized enterprise employers and employees when it comes to changes to optional remuneration schemes, it is hard to understand how the introduction of these measures will not incur additional expense for both. In fact, in its response to the consultation on the new measures, ICAEW found:

> "The new clause introduces additional costs which will change the cost model on which the acquisition finance model was based."

The Opposition therefore have a healthy scepticism for the Treasury's figures on the revenue raised from these changes, because it is clear that there will be an additional cost.

In an effort to gain further clarity of the revenue effects of this measure, the Opposition have tabled amendment 19, which we will invoke later. The measures in clause 7 are part of the Minister's clean-up operation to fully implement the wholesale reform of optional remuneration schemes introduced in the previous Bill. The reforms are aimed at targeting employers and employees who might use salary-sacrifice schemes for the purposes of tax avoidance. With that in mind, the review should consider the changes in the context of wider Government reform of optional remuneration schemes and include the impact of the changes to this specific scheme on the total revenue.

Turning to the vehicle rental sector, an increasing number of the company cars and vans offered by optional remuneration schemes are, in fact, rentals. That means

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that any changes to these schemes will have consequences for the vehicle rental sector. That is why we have tabled amendment 22, which would insert the following in line 2 of clause 7:

"The Chancellor of the Exchequer must review the effect of the provisions in this section on the vehicle hire sector and lay a report of that review before the House of Commons within six months of the passing of this Act."

2.30 pm

The vehicle rental sector contributes about £40 billion a year to the United Kingdom's economy. That takes into account the operations of the industry; UK-made vehicles and engines it purchases; the activity of UK dealerships; and its impact on the used car market. The industry employs 52,700 people directly and contributes £23.9 billion from rental and leasing activities. Its contribution is higher than that of many other sectors because of the reliance on rapidly depreciating capital goods. Rental and leasing companies spent an estimated £30 billion on buying more than 1.8 million vehicles in 2017, including £5.4 billion spent on 304,000 UK-assembled cars, vans and trucks. That represents 70% of all vehicles assembled in the United Kingdom, which means that such companies were responsible for 83% of vehicles sold domestically. The industry also purchased 418,000 vehicles with UK-made engines.

By purchasing so many UK-made vehicles and engines, the rental and leasing sector supports an extra 78,000 jobs at manufacturing plants in Ellesmere Port, Sunderland, Oxford, Swindon, Bridgend and Dagenham, as well as in the extended supply chain. That simply cannot be ignored. Most vehicle purchases are conducted through motor dealers; in 2017, such activity contributed £1.6 billion to GDP, supported 25,400 jobs and raised £400 million in UK tax receipts. The rental and leasing industry is estimated to have replenished 25% of its fleet in 2017, supporting auctioneers and dealerships and contributing £1.7 billion to GDP. That equates to 28,200 jobs and £469 million in tax receipts.

There is also a positive environmental angle to that activity. Oxford Economics estimates that carbon dioxide emissions across the British Vehicle Rental and Leasing Association member car fleet averaged 114.6 g/km in 2017, which is 20% less than the emissions from an average car in use on UK roads. Not everything is measurable, but researchers at Oxford Economics also confirmed that the opportunity to rent and lease those vehicles provides firms with the ability to access modern, fuel-efficient vehicles, without the strain of up-front capital outlays. That is a major benefit for small and medium-sized enterprises and private customers, who also gain more certainty about their costs going forward.

It is hard to estimate the extent to which the vehicle sector depends on company cars and van rentals as part of the optional remuneration scheme, but a number of prominent experts have claimed that it is significant. Amendment 22 would offer a clear picture of the relationship between optional remuneration schemes for car and van rentals and the vehicle rental sector, reviewing the impact that those changes will have on what is clearly a crucial sector for the UK economy.

What is most baffling about the measures in clause 7 is that a number of tax experts, including at the Institute of Chartered Accountants in England and Wales, have already warned the Government that the measures come up short and will require further amendments. The institute first raised concerns about these defects when the draft proposals were first published. When the Bill was finally published, it was surprised that the defects remained—so much for having consultations and taking into account the concerns expressed by experts, as we have been told comprehensively.

The institute's concern is that the proposed corrections to the provisions will create a new mistake by imposing a tax charge when an employee pays for emergency repairs to a vehicle and is reimbursed by the employer. With that in mind, can the Minister assure Members that the concerns of these tax experts have been addressed, or actually taken into account?

Kirsty Blackman (Aberdeen North) (SNP): Many of the points that I was going to make have been covered by the hon. Member for Bootle. However, a few things require to be dwelt on for more time or should be looked at from a slightly different angle.

When I first became aware of the Opposition's amendments, I did not think that it was a tack that they should take. However, when I looked into the information behind them and at the detail, I discovered that it is actually a very sensible tack to take, for a number of reasons. I note the comments about the 4,000 Scottish jobs that could be affected. It is important to note the number of jobs that could be affected by any changes to this area, particularly through tweaks to the benefit-in-kind system.

I also point out the number of new car registrations, which the Society of Motor Manufacturers and Traders has on its website. There has been a 7.2% fall in the year to date, which is incredibly significant. If the Government are thinking about ensuring that companies have those up-to-date cars with the lowest emissions, it is really important that companies are incentivised to ensure that their employees drive an up-to-date fleet, rather than older cars.

The other thing to note is that registrations in October 2018 were at their lowest level since 2013, which is significant. We might expect low numbers when we were coming out of a recession, but there has been a significant drop in registrations over the past year. It is important that the Government think about this wider context when making these decisions.

It is particularly important to note the impact of these changes on the industry, given the context of Brexit and the concerns raised by the car industry. Now is not a good time to consider making changes that are likely to negatively impact the automotive industry, particularly given the nature of its supply chains, which are so integrated with European Union countries. There is the potential for those supply chains and those manufacturing businesses and jobs to move wholesale to the EU, rather than the integrated supply chains that we have now being maintained. It is important to note that wider context when making any changes, because the Bill will not act in isolation; it will have to operate in the context of whatever potential economic hit will come from Brexit.

On the ICAEW's comments about the potential for an accidental charge following emergency repairs, I agree with the hon. Member for Bootle that the Government might need to amend the Bill further in order to make it workable, so that it does what they intend it to do. If we are not going to listen to the utmost experts on this issue, what is the point in having the consultation? If we are to have a consultation, it will be meaningful only if the Government listen and actually make the suggested changes. These people are the experts and negotiate the tax system on a daily basis, so they are the ones who can highlight potential problems.

To expand on that a little bit, I totally accept that protecting the Treasury is important in the changes being made, and that the Government are attempting to protect the Treasury from problems that it did not necessarily foresee when it created the Bill in the first place. However, there are changes to the Finance Bill every year. As the hon. Member for Bootle said, this is the fourth Finance Bill Committee that I have served on, and every year there seem to be different changes to benefit in kind issues. I understand that the Treasury is trying to protect itself, but if there is an immensely complex tax system and it is changed every year, it is difficult for people to comply with the legislation, even those who are trying to do so. I think that the Government need to think more carefully and do some sort of sensible review, as suggested by the Opposition, into the whole landscape of benefit in kind issues and then make changes in one go, so that they are easily understood and can be complied with them. As I said earlier, there is no point having a tax system if people do not understand it and cannot pay the tax because they do not understand how they are supposed to comply with the system.

That also has a knock-on effect on the automotive industry. If it is too difficult for employees to claim the relief that they are supposed to be able to claim, or to have the benefit in kind accepted as such, as they are supposed to, it means that fewer companies will be willing even to attempt to comply with the legislation. I think that it is really important, in terms of the new vehicles and ensuring that the Government can collect the correct tax.

In relation to whether or not this is a stealth tax, I would certainly say that there are stealth changes being made to these taxes, and not ones that have been widely publicised or understood well enough by individuals having to go through the system. If the only way to comply with tax changes is to ensure that you have a very good tax lawyer or tax adviser in place, then I would suggest that the system is a bit too confusing. It should be easier for people to jump through the hoops that are in place, and constant changes by the Government are not helping.

I will speak briefly to the proposed amendment. The explanatory notes, on pages 14 and 15, state that this was first proposed in the autumn statement 2016 and put through a technical consultation. The Government are having to make changes in relation to the anomalies that were raised. The Government decided to take action to protect the Exchequer at the first opportunity. Although this was consulted on, the Government did not see the potential pitfalls in the way they put forward the legislation. Therefore, either the consultation was deficient or the Government's ability to listen to the consultation responses was deficient. There was certainly an issue with the process.

I am pleased that the Government have changed their ways—or have said that they will—about the number of Finance Bills we are going to have in any given year, especially as I have served on four Finance Bills since 2016, and I only avoided one in 2017 because a general election was called. That seems to me to be too many tax changes in any year, given that we still have all the changes happening on a significantly more than annual basis. I think the Government need to take a step back in some of these situations and have a much more wide-ranging look at the issues, particularly in relation to benefits in kind. Every single year there are changes in the benefits in kind legislation in the Finance Bill, which every year we have stood up and debated.

First, we need to look at the whole system of benefits in kind and then make decisions about the entire system that are easily understood by people. People are much more likely to comply if they can actually understand the legislation. If there are constant changes, that makes it is much more difficult for people to jump through the hoops they are supposed to jump through and to pay the correct tax that they are supposed to pay.

Secondly, in relation to the impact on the automotive industry, I am particularly pleased that the Labour party has put forward the amendment about the different regions and nations of the UK. It is really important that we consider the differential impact, not least in the context of Brexit. Areas where there is significantly more manufacturing, such as the north of England, are likely to be hardest hit by the economic shock resulting from Brexit. That is shown across the Whitehall analysis papers. If they are being hit by that, we do not want them to be hit by other things. Doing that analysis on a regional basis is really important.

Mel Stride: I thank the hon. Members for Bootle and for Aberdeen North for their contributions to the debate.

Clause 7 makes two changes to ensure that the optional remuneration arrangement—OpRA—rules for cars and vans work as intended. First, the clause addresses an anomaly in the OpRA legislation. Under current legislation, the value of any connected costs is not included when calculating the value of the amount foregone. That was not the original policy intention. It is important to note that we are not looking at new measures as such; we are looking at closing loopholes and ensuring that the original legislation passed in 2017 operates as intended. The clause ensures that the value of the amount forgone includes any costs connected with the taxable car or van, such as servicing and insurance. The clause also ensures that the value of the deduction available for a capital contribution is adjusted if a company car is made available for only part of the tax year. Again, that brings the original intention of the legislation into effect.

2.45 pm

I will turn briefly to the issue of consultation and stealth tax, which Opposition Members have raised. There has been extensive consultation, both on the original measure enacted in 2017 and on the draft legislation before us today. It is worth pointing out that, despite the extensive consultation, which I will go through in some detail in a moment, neither of these issues were raised as a potential problem, although they subsequently emerged as such. The initial consultation, which ran for 10 weeks, was followed by a further technical consultation on the draft legislation, which ran for eight weeks. That was for the 2017 legislation. Officials considered 259 written responses from employers, tax professionals and representative bodies. There were 77 submissions from individuals. That led to 18 meetings with a wide range of employers, tax professionals and representative bodies, including two with the ICAEW. Officials had face-to-face meetings with over 100 employers and tax professionals. That illustrates that the level of consultation that attended these measures was deep and comprehensive.

On the background to the rationale for making these changes, optional remuneration arrangements involve an employer and employee agreeing that the employee will give up an amount of salary in exchange for a benefit in kind, or take a benefit in lieu of a cash allowance. The Finance Act 2017 introduced changes to remove the resulting tax and NICs advantages. Where the provision of a car or van available for private use is made through OpRA, the amount of earnings forgone is compared to the cash equivalent of the car or van benefit—the amount of benefit in kind deemed to have been derived from use of the vehicle. The greater of those two values is reportable for tax and national insurance purposes.

Under the original car and van benefit charge legislation, connected costs such as servicing and insurance are regarded as being part of those benefits. However, during the introduction of the OpRA rules in the Finance Act 2017, an oversight meant that the legislation was not clear that connected costs should be included when calculating the amount forgone. That meant that connected costs could be disaggregated from the calculation, artificially lowering the calculation of the amount forgone and giving those individuals an unintended tax advantage. This legislation corrects that, ensuring that when a taxable car or van is provided through OpRA, the amount forgone includes costs connected with the car or van, which are regarded as part of the benefit in kind under the normal rules. The second change in the legislation ensures that the value of the deduction available for a capital contribution is adjusted if a company car is made available for only part of the tax year.

Where an employer provides an employee with a car that is available for their private use, there is a taxable benefit in kind—the car benefit charge. The car benefit charge is based on the original list price of the car and the amount of emissions it produces. Some employees make a capital contribution towards the cost of the car. That sum is deducted from the list price and reduces the car benefit charge. The normal rules for calculating the car benefit charge automatically adjust the deduction allowed for capital contributions on a pro-rata basis if the car is made available for only part of the tax year. Similar adjustments were not included in the OpRA rules for calculating the amount forgone. This means that currently the amount deductible for capital contributions where the car is available for only part of the year, and provided through an OpRA, is overstated. The effect is that the comparison of the amount forgone under OpRA to the modified cash equivalent of the car or van benefit charge is not made on a like-for-like basis. These changes reinstate the original policy intention and ensure fairness.

Kirsty Blackman: The Minister said that an oversight was made in relation to the legislation as drafted. Does he share my concern that the Government should not be making oversights in tax legislation and agree that, in fact, the process we have for scrutinising tax legislation is therefore deficient?

Mel Stride: I certainly accept the hon. Lady's contention that oversights are never acceptable—of course they are not. As I set out, there was significant consultation and scrutiny of both the policy measure and the detailed legislation. Unfortunately, on this occasion the two issues being highlighted here did not come to the appropriate attention in the drafting of the 2017 legislation. If the hon. Member for Aberdeen North is saying that there was insufficient scrutiny, I do not believe that was the case, given the large amount of scrutiny applied in this circumstance.

The changes are expected to affect a small proportion of the 1 million or so individuals who are provided with a company car or van for private use. The average cost of the changes for those affected has been estimated at between £120 and £140 a year in extra tax. There will also be a slight increase in national insurance contributions for employers, in line with the original policy intent. The Exchequer yield from the changes is estimated to be negligible, but by stopping the growth of separate arrangements, significant amounts could be protected.

The hon. Member for Oxford West and Abingdon suggested that the issue of emergency repairs needed to be looked at in greater detail. That is already covered by the legislation. As the explanatory notes state, the clause

"does not affect the operation of sections 239(1) and (2) in relation to other payments or benefits. For example, should an employer reimburse an employee for costs incurred (such as replacing a tyre), the exemption in section 239(2) will still apply."

HMRC will also ensure that that is reflected clearly in the guidance.

Peter Dowd: I want to bring some of the points I raised to the attention of the Minister again. He talked about consultation. Let us not take the totality of the automotive industry, because it is a big industry. What about Arval, which is a leasing company? Did the Government think, "We are going to make changes to leasing and rental arrangements, so let's consult those companies directly affected"? Were any of those companies, many of which are quite big businesses, consulted on the measures?

Mel Stride: As I said, there were 259 written responses from employers, tax professionals and representative bodies, 77 from individuals, and 18 meetings with a wide range of employers, tax professionals and representative bodies, including two with the ICAEW. Officials had face-to-face meetings with more than 100 employers. There was pretty extensive engagement. The Government are constantly liaising very closely with industry. I know that the Exchequer Secretary recently met, for example, the chief executives of Vauxhall and Jaguar Land Rover in Ellesmere Port, and discussed a variety of important issues. The measures in the Bill were not raised on that occasion, but if the suggestion is that we are not close enough to industry and to businesses, I can assure the hon. Member for Bootle that we are.

The hon. Gentleman talked about the potential impact of the measures on the tax yield. I will use his figures—always a slightly risky thing to do, but I will on this occasion. *[Interruption.]* That may be unfair. He suggested that the tax yield per company car is, on average, £2,638.

It is estimated that in the order of 10,000 individuals of the 1 million company car users in the UK will be affected by the ironing out of the deficiencies in the 2017 legislation—10,000 individuals will be adversely impacted by now having to pay the correct tax rather than being able to rely on the deficiencies in order to legitimately avoid that tax. That equates to about £20.6 million of forgone taxation, if every single one of those 10,000 were, as a consequence of the changes, to drop having a company car.

Of course, there are two points to make here. One is that the vast majority will not do that, so it will be a figure well below £20 million per year, and the other is that it will be offset by the additional taxation brought in by those who will no longer be absolving themselves of taxation as a result of the deficiencies in the 2017 Act. With regard to the impact on tax that the hon. Gentleman raises, I suggest that that underpins the Treasury's view that the impact will be negligible.

The Government have already published a tax information impact note on clause 7, in line with normal practice. As set out in that note, as I have already said, clause 7 simply corrects two anomalies in the existing legislation. These changes affect only a very small number of people who have been taking advantage of the loopholes, so it will not have a significant impact on any of the areas addressed by the amendments. I therefore call on the Committee to reject the amendments tabled. I commend the clause to the Committee.

Peter Dowd: I want to pick up on a couple of points. We keep coming back to the fact that the Minister seems to brush aside the woeful lack of consultation aimed specifically at leasing companies. They are the ones dealing with this day in, day out. They are the ones who draw up the contracts. They are the people who the Government should be going to. I do not know whether the Government have been to those particular companies, but in future maybe that is something they should consider. If they have, and if I were to have conversations with those companies in future, I would check that they were aware that the Government did discuss this with them because, if that is the case, they appear to have been asleep on the job. I do not know whether that is the case, but I am sure we can check with them; I am certainly happy to check with them.

That goes to the heart of the issue about consultation. It is happening time after time that the Government are rushing through this legislation, and having huge amounts of tax legislation is complicating things as time goes by. The Bill before last, I think—I have lost track of them—was the largest Finance Bill we had ever had. I think that was before the election. It was an attempt to ram through a whole load of proposals that, fortunately, the Opposition at that point were able to stop.

I do not think 10,000 people being affected by this is a small number. It may be a small number in proportion to the number of people who could have been affected by it, but 10,000 people affected is a fair old whack. I am sure that if I were standing here saying that Labour was going to take £150 or £200 off 10,000 people, the gasps of outrage from Conservative Members would be palpable.

The other thing worth noting is that I think an awful lot of people entered into these arrangements in the best of good faith, and the Minister talking about them "taking advantage" of the tax loophole was maybe an unfortunate phrase. I do not want to pick him up on that point, but it is important to note that the vast majority of people affected by this entered into these arrangements with the best intentions, and I do not suspect that they were in any way trying to find any loopholes. They would have been advised of these arrangements by their employers or by leasing or rental companies, and I do not think it would have been on the basis of, "Here's a tax dodge; here's a tax loophole; go down this path." It is important that we try to put that into context.

Mel Stride: I will briefly respond to those comments. I congratulate the hon. Gentleman, because he is about to tease out from me, as he likes to term it—his term "teasing out" has gone into the parliamentary lexicon—the specific issue of consulting leasing companies and listening to their views, which we also feel is important. The draft legislation was subject to technical consultation between 6 July and 31 August 2018. One of the written responses we received was from the British Vehicle Rental and Leasing Association, so we certainly had input from it.

On the hon. Gentleman's point about those 10,000 people affected, I think two things. First, I certainly accept, and I think I said so in my remarks, that this was not tax avoidance, but a deficiency in the way the tax legislation has been brought into effect. In no way am I casting any aspersions on the activities of those who have benefited from that deficiency. Secondly, this is not about going out and taking money off 10,000 people —I think that was the expression the hon. Gentleman used. It is just about ensuring that the tax rules we introduced in 2017, which operate effectively for the vast majority of taxpayers, apply to everybody, rather than almost everybody.

3 pm

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 6]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 18, in clause 7, page 5, line 2, at end insert—

"(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on the availability and uptake of optional remuneration arrangements relating to cars and vans and lay a report of that review before the House of Commons within six months of the passing of this Act."—*(Peter Dowd.)*

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 7]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 19, in clause 7, page 5, line 2, at end insert—

"(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on tax receipts and lay a report of that review before the House of Commons within six months of the passing of this Act."—*(Peter Dowd.)*

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 8]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Amendment proposed: 22, in clause 7, page 5, line 2, at end insert—

"(8) The Chancellor of the Exchequer must review the effect of the provisions in this section on the vehicle hire sector and lay a report of that review before the House of Commons within six months of the passing of this Act."—*(Peter Dowd.)*

Question put, That the amendment be made.

The Committee divided: Ayes 9, Noes 10.

Division No. 9]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Clause 7 ordered to stand part of the Bill.

Clause 11

Beneficiaries of tax-exempt employer-provided pension benefits

Peter Dowd: I beg to move amendment 14, in clause 11, page 7, line 39, at end insert "but only if the requirement in subsection (3) is met.

'(3) The amendment made by subsection (2) may only have effect if the Chancellor of the Exchequer has laid before the House of Commons a forecast of the effect on the public revenue of that amendment coming into effect in the tax year 2019-20 and subsequent tax years.'"

This requires a review of the revenue implications of the provisions of this clause to be reported to the House of Commons before this section can have effect.

The Chair: With this it will be convenient to discuss the following:

Amendment 15, in clause 11, page 7, line 39, at end insert "but only if the requirement in subsection (3) is met.

'(3) The amendment made by subsection (2) may only have effect if the Chancellor of the Exchequer has laid before the House of Commons a report of a forecast of the effect of that amendment coming into effect on pension benefits to which the exemption in section 307(2) of ITEPA 2003 applies.'"

This requires a review of the effect on pension benefits of the provisions of this clause to be reported to the House of Commons before this section can have effect.

Amendment 16, in clause 11, page 7, line 39, at end insert "but only if the requirement in subsection (3) is met.

'(3) The amendment made by subsection (1) may only have effect if the Chancellor of the Exchequer has made a statement to the House of Commons detailing discussions between Her Majesty's Government and the Charity Commission regarding the provisions of this section.'"

This requires a statement to the House of Commons on discussions between the Government and the Charity Commission on this clause.

Clause stand part.

Peter Dowd: The explanatory notes state:

"This clause will amend the tax exemption which provides for employer paid premiums into life assurance products and employer contributions to certain overseas pension schemes to be paid free of tax. Currently, premiums and contributions are only exempt from tax if the beneficiary is the employee or a member of the employee's family or household. This clause will allow the beneficiary to be any individual or registered charity."

The explanatory notes go on in some detail, and I exhort hon. Members to read them because they are pretty important and give context to the clause. They state:

"The amended exemption will also allow employees to nominate a registered charity, which is consistent with existing government policy of providing tax relief on charitable donations."

We tabled a number of important amendments to the clause to ensure it does not create any unforeseen issues with regard to charitable giving, which all parties have long supported. Amendment 14 requires the Government to review the revenue effects of the clause before it comes into effect. That is merely a matter of good practice. It seems that the Government are no longer willing to provide the Opposition with the full information that we need properly to scrutinise the measures they are introducing through Budget legislation, nor the legal means by which to amend them.

We are not asking for much—merely a simple statement setting out the cost of any measures introduced. We were kind enough to perform that exercise for our Conservative colleagues in our "grey book" ahead of the 2017 election, as they all know. It is a fantastic read, I have got to say, and I am happy to sign any copies of it. Unfortunately, the Government did not return the favour.

We are not alone in calling for such information. The amendment reflects the advice of the Chartered Institute of Taxation and the Institute of Government, whose report, "Better Budgets: making tax policy better", states:

"we have heard that the exceptional processes around tax policy making—in particular, secrecy, more limited scrutiny and challenge, and the power of the Treasury—have led to an ever-lengthening tax code, beset by a series of problems: confusion for taxpayers, poor implementation, political reversals and constrained options."

That just about sums up what we have been saying today. The report sets out 10 steps to make tax policy better. Again, I ask hon. Members to look through it. It says, for example, that the Budget process should contain fewer measures, and that those should be better thought-out and capable of being implemented efficiently by HMRC, with politicians making informed decisions. It asks for:

"Greater stability in the areas of the tax system where taxpayers—individuals and business—need to make long-run decisions. A tax system that commands public support—and is robust enough to raise the money we need to finance the state we want."

We are particularly interested in step 9, in relation to this amendment:

"Enhance Parliament's (and the public's) ability to scrutinise tax proposals…Parliament needs to do a better job at scrutinising Finance Bills".

That theme continues throughout the report. It sets out in some detail—I will not go into that now—the issues around the unclear value for money, which is also repeated time and again in the Public Accounts Committee report for 2015-16.

We believe that the amendment, which requests a Government analysis of the cost of these new relief proposals, would help the Government to progress towards enhancing parliamentary scrutiny of the measures that they are introducing, as described in the report that I mentioned. After all, we know that the clause will have some revenue effects as it would introduce a tax relief, under certain circumstances, where there was not one before. It is also in the Government's interest, surely, to provide such a figure, as that would show the impact of their attempts to boost charitable donations, for example. The Government may, of course, be attempting to support additional revenue streams for charities, but we must consider the wider aims of charities.

The original intention of the big society, for example, was to slash formal public expenditure as part of the proposal—whether it did is a matter of conjecture—but there is a question about how the Government plan to pay for the measures introduced in the clause. I note that the Chancellor is currently unable to pass any tax increases for fear of the immediate loss of support from the Brexiteers, but it is important that we focus our attention on the impacts of continued or further relief being introduced in the clause. If the measure introduced in the clause had been in our manifesto platform, revenue effects would have been included in the costings, and we ask the same of the Government. Let us put the figures in; that is what the amendment seeks to do.

Amendment 15 is an important one, which requires a review of the effects of the provisions of the clause on pension benefits to be reported to the House of Commons before the section takes effect. The precise impact of the provisions on pension benefits is unclear, and I hope the Minister can clarify that. As she will know, our current pension system operates an "exempt, exempt, taxed" system. The House of Commons Library explains that system well in its briefing on reform of pension tax relief. I will quote a bit of it, because it is important:

"The tax treatment of pensions follows an 'exempt, exempt, taxed (EET) model'…Pension contributions by individuals and employers receive tax relief and employer contributions are exempt from national insurance contributions",

and it goes on,

"but individuals are able to take up to 25% of their pension fund as a lump sum on retirement."

I quote that only to give a flavour of the context. Under the previous arrangements for the tax-exempt employer-provided pension benefit, some taxation would have been paid on employer contributions to certain overseas pensions systems, where the beneficiary was an individual or a charitable organisation which was not one of those listed in the original Income Tax (Earnings and Pensions) Act 2003. Those tax-exempt beneficiaries were listed on that legislation as follows:

"'Retirement or death benefit' means a pension, annuity, lump sum, gratuity or other similar benefit which will be paid or given to the employee or a member of the employee's family or household in the event of the employee's retirement or death."

The amendment poses a question about the impact on the overall pensions benefits if taxation is not being paid because of the exemptions the clause introduces, and asks whether an analysis of that impact has been done and, if not, why the Treasury has not looked into the matter. The clause makes a broad reference to overseas pension schemes, and it would be helpful if the Minister listed which schemes the clause would affect, and specified where they are actually based overseas. The overseas element is important, especially in the light of the Government's decision not to uprate the state pensions of British overseas residents, which, in many cases, leaves many older people abroad destitute.

The current system of pension taxation clearly has many inequalities, which means that the way that taxation is applied to pension benefits tends to favour the wealthiest. Top rate tax payers only have to contribute 60p of every £1 saved. Meanwhile, those on low incomes have to pay 80p for every £1 saved. That is a factor in the pensions system.

3.15 pm

The impact of taxation on pension benefits was touched on by the House of Commons Library, which stated:

"People with annual incomes of over £50,000 accounted for 11% of income tax payers, but over half, 52%, of private pension contributions attracted tax relief. The 1% of income tax payers with incomes of £150,00 and above accounted for 15% of pension contributions attracting tax relief. Conversely, while those earning less than £20,000 a year are 40% of taxpayers, they account for just 7% of personal pension contributions."

That demonstrates the urgent need for review of the impact of tax relief on pension benefits, along with a wider distribution analysis of this measure. We also seek more information on exactly which schemes this would benefit and where they are based.

Amendment 16 requires a statement to the House of Commons on discussions between the Government and the Charity Commission on the clause. We would like to be absolutely certain that the introduction of tax incentives for the donation of employee-provided pension benefits would not lead to an increase in pressure being placed on older people, or widen opportunities for fraudulent activity in nominating a charity to receive such benefits.

This is not an insurmountable issue, but it requires the Treasury and the Charity Commission to enter into a discussion to ensure that no additional risks are created, not necessarily by design, but by omission. We have seen a fair amount of that recently.

Kirsty Blackman: Will the hon. Gentleman clarify that when he says Charity Commission, he also means OSCR, which is the relevant body in Scotland?

Peter Dowd: Yes, I agree to that point of clarification. That is the intention. The Charity Commission and the Scottish body would no doubt recognise the seriousness of this problem, and in their strategy for dealing with fraud, they make the following point:

> "The commission continues to see, and has to act on, serious problems arising in charities in relation to poor financial management and inadequate financial controls, accounting and record keeping. In 2010-11, out of 1,912 completed compliance assessment cases, the proportion involving serious concerns about fraud, theft and other significant financial and fundraising issues increased from 16% the previous year to 26%."

Figures for subsequent years can be found in the commission's annual publication "Tackling abuse and mismanagement". The commission goes on to say:

> "The National Fraud Authority in its annual fraud indicator report of 2012 estimated annual losses of £1.1 billion, or 1.7% of annual charity income during 2010-11."

There is therefore a problem, because that is cash not going where it was intended. The impact of fraud and financial crime on a charity, particularly smaller charities, can be significant, going beyond financial loss and the impact of the financing of a charity's planned activity. These crimes cause distress to trustees, and so on, and have an adverse effect on the charity. It is important to deal with them, says the Charity Commission.

If the Treasury is going to offer tax incentives for charitable donations, it is vital that the proper safeguards are in place to ensure that tax forgone does not act as an incentive to other risks. For example, from my understanding, the Charity Commission holds the only centralised list of registered charities; therefore a clear procedure for HMRC and the Charity Commission to communicate would be necessary to guarantee tax exemption. That is important.

Bambos Charalambous: My hon. Friend is making an excellent speech and raising some excellent points. Does he agree that there is a need for further transparency on how these proposals were put together by the Treasury? Does he agree that there is a case for a public register of charities that benefit from this tax exemption?

Peter Dowd: If the Government decided to listen to us and undertake such a review, they would have the ability to tease out—to use that phrase—to check, to put into the mix all these important issues. We do not claim to have absolute authority on how this should be done, which is why we think wider consultation and an extensive review are absolutely appropriate. We all want the £1 that someone gives to a charity to go to the charity, and not be siphoned off in some fashion.

What procedures does HMRC already have in place for instances in which a nominated beneficiary turns out not to be a registered charity, but the person who nominated it assumed that it was? It is an important question, and it surely presents ethical issues if someone chooses to donate their benefits on the basis of fraudulent information. That is not what we want. Clearly, in the event of their passing on that information, it would not be changeable. Does HMRC plan to apply tax in those circumstances?

This will be made all the more difficult by the Government's repeated attacks on the Charity Commission, which has been attacked time and again. Six years of cuts have led it to repeatedly warn that its ability to properly regulate the charity sector is being limited. We must take that factor into account. As reported by Devex, the news website for the global development community:

> "The commission has a staff of 290 and a budget of £21 million, and while budgets have declined, the number of charities it oversees has grown by around 5,000 since 2009. The charity income it regulates has jumped from £52 billion in 2010, to more than £74 billion in 2017."

Former Charity Commission board chair William Shawcross wrote in a 2014 report that,

> "our funding position remains unstable, a matter which has been recognised by many in the charitable world and which I have raised with Government. We cannot absorb unending cuts to our budget and may have to consider alternative sources of funding."

What assessment has the Treasury made of the impact of this measure on the struggling, underfunded commission? I hope that this matter was discussed with the Chancellor when the clause was prepared. I do not expect so, but I hope that it was.

Finally, it is clear that the measure could represent yet another injection into some private schools that operate as charities under Charity Commission guidelines. That has been recently confirmed by the House of Commons Library, which stated:

> "The Government has stated that there are about 1,300 independent schools which are registered as charities and that there is a great variation in size of school across the sector: There are approximately 2,300 independent schools in England, ranging in size from the very small…Many of them are very small…The fees range from £20k per year in a prestigious day school…to far smaller amounts…Similarly, quality varies from world-leading education to some small, poorly-resourced schools".

What assessment has the Treasury made of the amount of tax that will be forgone owing to the nomination of those particular schools?

Clive Lewis: I thank my hon. Friend for his scintillating speech, which is so full of detail and which I think everybody appreciates. Far be it from me to be a class warrior, but given yet another tax giveaway to the independent schools, which he mentioned, many Opposition Members would say that it is high time that those independent schools had their charitable tax status ended, and that omitting them from this measure would be a good start to that process.

The Chair: Order. The amendment is not about that.

Peter Dowd: In relation to the amendment, it is important to ensure that, where charitable donations are given—whomsoever they are given by and to—the giver knows, in good faith, that the cash that they give will go towards genuine charitable purposes. That is the key issue. Whether the definition of "charity" is open to debate in relation to any organisation is another matter. The key, and the point I think my hon. Friend is trying to make, is that charities really ought to be charities.

We hope that a statement on the discussions between the Charity Commission and the Chancellor would address some of these issues. It continues to be a big issue in this country that people who can afford to pay their taxes should pay their taxes. It is important that anybody who gives to a charity can rest assured that their charitable donation, won through their hard work, will be used with the best intentions. Our amendment would, in all good faith, ensure that.

Kirsty Blackman: The Committee will be glad to hear that I will speak only briefly. I am happy to support the Opposition's amendments. I want to focus on amendment 16, which deals with the communication that is needed between HMRC and the charities regulator. That is incredibly important. We need such communication for individuals to be assured that their money will go to the right place and that the correct tax exemptions exist for that.

Amendment 16 would require the Chancellor to make a statement to the House

"detailing discussions between Her Majesty's Government and the Charity Commission regarding the provisions of this section."

If the Minister is minded not to accept the amendment, which is very sensible and the provisions of which it would be easy for the Government to carry out, is he willing to write to Opposition Members about the discussions between the charities regulators in England and Scotland and the Government, the nature of those discussions and the advice the Government have received from charities on the potential impact of the clause? Will he also cover the eloquent point made by the hon. Member for Bootle about ensuring that protection from fraud is built into any changes that are made under the clause?

If the Minister is minded to accept the amendment, that would be grand. If he is not, will he commit to contacting us with those details so that we are aware of the discussions the Government have had and we can be both comforted that our constituents who decide to give their benefits to charity can do so knowing they are less likely to be the victims of fraud as a result, and aware that HMRC is across the issue and ensuring that people do not unintentionally become victims as a result of the changes?

Sir Robert Syms (Poole) (Con): I must admit that I am a little surprised by the clause, because it looks to me like the Treasury is giving away money. These days, many people are in pension schemes and, when they die, there is some money. That might go to a relative, but they might wish for it to go to a charity. The Government are being big hearted—dare I say big societied—with the clause, in that they want the individual who goes to meet their maker to leave some of their resources to a charity that is dear to their heart.

My guess is that Cats Protection and various dog charities will be the biggest beneficiaries of the clause, but it will come down to either an employer making a judgment depending on what their employee wanted, or, in the process of probate, a solicitor taking a decision that a particular charity should get that money. In most cases, we probably are not talking about multi-millionaires, and sadly, not enough people have sufficient pension or death benefits. We are probably talking about small sums of money. The simplest solution, given that there is already quite a wide definition, is to widen that definition a little more to allow someone who cares passionately about heritage or pets or some inner-city regeneration scheme to direct the money to their cause rather than to Her Majesty's Treasury.

I am a bit worried about Treasury Ministers being so generous in introducing the clause, but it probably makes sense on better regulation terms—on reducing some of the red tape when people end up dying. It will give a little more scope for people to dispose of the money that they have earned, because they have worked all their lives for that pension, and when they die, I think it not unreasonable that they should leave it to the cause that they particularly want to support.

3.30 pm

I do not see this as some kind of evil tax evasion, or even a secret plot to subsidise public schools. It actually allows people who might not have relatives—or might have relatives whom they do not think deserve their money—but who want to give something so to do, which will allow them to feel that, after their death, a good cause will be looked after. I congratulate the Chancellor and his Ministers on being so big-hearted and generous, and such nice people.

Mel Stride: I thank the hon. Members for Bootle and for Aberdeen North for their contributions, as well as my hon. Friend the Member for Poole for his congratulations, which should largely be for me, because I am the Tax Minister and this is, after all, a tax measure, but we will leave it at that.

Clause 11 makes changes to modernise the tax exemption for premiums paid by employers to provide their employees with retirement and death benefits in life assurance products or certain pension schemes. Employers can provide death benefits for an employee through a life assurance policy or a retirement benefit through pension schemes. The employee will receive a pension out of those payments when they retire, or they can name a beneficiary to receive any payment of retirement benefit after they die.

Currently, most premiums or contributions paid by employers into these schemes are exempt from income tax. However, for certain types of scheme, as we have been discussing, this is the case only if the beneficiary is the employee, a member of the employee's family or a member of their household. "Family" and "household" cover spouses, civil partners, parents, children and their spouses or civil partners, and dependants, domestic staff and the employee's guests. The premiums paid by the employer for these schemes are treated as a taxable

[Mel Stride]

benefit in kind, if the eventual beneficiary is not covered by this definition, such as a charity or a friend. The changes made by this clause make the exemption fairer by extending it to cover premiums for policies where the beneficiary is any individual or a charity. The legislation will apply to premiums paid from 6 April 2019.

I will deal with amendments 14 and 15 together. Amendment 14 would require a review of the revenue implications of the provisions of the clause, to be reported to the House before this change can have effect. Amendment 15 would require a review of the effect on pension benefits of the provisions of the clause, to be reported to the House before this change can have effect. These amendments are unnecessary.

As with other tax measures, the Government have already published a tax information impact note for this measure. This shows that the changes are expected to have a negligible impact upon the Exchequer. Premiums paid by employers to almost all UK pension schemes and overseas pension schemes are already covered by separate tax exemptions, which apply regardless of who the beneficiary is. Therefore, the change introduced by the clause applies only to certain niche overseas pension schemes and employer-financed retirement benefit schemes.

The hon. Member for Bootle asked for specific examples of which schemes fell within the scope of this particular measure. I am afraid that we are unable to provide that information, because it depends what the terms and conditions state within each scheme.

In essence, this is a welcome change, but it affects a small number of schemes and a relatively small number of individuals. As a result, our assessment, supported by the Office for Budget Responsibility, is that the revenue implications are negligible. I think that answers the question raised by the hon. Gentleman on what the impact will be on the Exchequer and whether this has been taken into account. It certainly has been looked at and agreed upon by the Office for Budget Responsibility. The impact on pension benefits will therefore also be relatively minor. This change simply ensures that the benefits-in-kind rules apply in the same way across pension schemes and life assurance policies. I therefore urge him not to press his amendments.

Amendment 16 would require a statement of the House on discussions between the Government and the Charity Commission on this clause. HMRC does, of course, liaise with the Charity Commission and others, wherever appropriate, so such a statement would not be necessary. However, it might be helpful if I explain the position in relation to charities. The exemption will apply only where the beneficiary is recognised by HMRC as a charity for UK tax purposes. These will include charities registered with the Charity Commission in England and Wales, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland. The hon. Member for Aberdeen North asked whether I might write to the Committee with further information on discussions that may have been held, and I would be happy to do that. In the first instance, it might be helpful if she were to write to me, setting out exactly what she would wish me to respond to.

Not all charities need to be registered in England and Wales. Some are exempt or excepted from registration, but most charities will be recognised by HMRC in order to claim tax relief such as gift aid. Employers will need to check with the charity that it is either registered or recognised as a charity for UK tax purposes when it is named as a beneficiary.

I hope that explains the position and that the hon. Member for Bootle might consider withdrawing the amendment.

Peter Dowd: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 11 ordered to stand part of the Bill.

Clause 12

Tax treatment of social security income

Peter Dowd: I beg to move amendment 2, in clause 12, page 9, line 7, at end insert—

'( ) The Chancellor of the Exchequer must review the revenue effects of the provisions in this section and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the revenue effects of Clause 12.

The Chair: With this it will be convenient to discuss clause stand part.

Peter Dowd: I know people are going to be terribly disappointed that this is my last contribution today. Other colleagues must have an opportunity to have their say. The disappointment is palpable, but I must push on.

The clause deals with the tax treatment of social security income. Again, I refer to the explanatory note, which provides a helpful introduction to the clause:

"The Scottish government is introducing five new social security payments: young carer grant; best start grant; funeral expense assistance; discretionary housing payments; and carer's allowance supplement."

It goes on:

"The government is also confirming the tax treatment of another four social security benefits: the council tax reduction scheme, discretionary housing payments and the flexible support fund, overseen by the UK Government, and the discretionary support scheme, overseen by the Northern Ireland Executive."

Furthermore:

"Social security benefits are administered by a number of different UK government departments and the devolved administrations. The tax treatment of social security benefits is legislated for within income tax legislation. The tax treatment of new benefits should be confirmed when each one is introduced."

The note continues:

"The Scottish government's fiscal framework underpins the powers over tax and welfare that are devolved to Scotland through the Scotland Act. This states that 'any new benefits or discretionary payments introduced by the Scottish Government will not be deemed to be income for tax purposes, unless topping up a benefit which is deemed taxable such as Carer's Allowance'."

This, in part, relates to social security changes made by the Scottish Government, which is a matter for Scotland to decide. We also note that this ensures that some new social security payments are not subject to additional taxation, which is a sensible approach that will make the finances of many on the lowest incomes as simple as possible. We would, however, like to query the decision to make the carer's allowance supplement taxable.

The equality impact assessment for the clause suggested that the carer's allowance supplement will be confirmed as taxable. That is a supplementary payment to carer's allowance, which is a taxable benefit paid by the UK Government. The majority of recipients of care allowances are women, so more women than men will receive the carer's allowance supplement in Scotland. In effect, it looks as though the only additional social security payment being denied the tax exemption is the one that will primarily affect women. Perhaps the Minister will elaborate on why that is the case. It appears to stem from the fact that the UK carer's allowance is itself taxable—a UK Government decision that is likely to have the very same gender impacts.

The Women's Budget Group has demonstrated on numerous occasions that women are already disproportionately affected by the Government's policies in relation to the years of austerity. Its research shows that 86% of the austerity burden was and is being borne by women. That is eight long years during which our mothers, sisters and daughters have borne the brunt of those cuts, and now here we are with yet another measure that will disproportionately affect women more than men. A member of the Women's Budget Group, Dr Angela O'Hagan, helped put this into context when she said:

> "Budget processes have increasingly become the conduit for discriminatory policies, such as the UK Government's rape clause and the cumulative attacks on welfare income especially among poorer women and women of colour. It is essential that external voices such as UK Women's Budget Group are engaged and heard, and that the Government's budget processes are opened up to closer scrutiny for their impact on equalities groups and their potential to advance equality through more effective allocation of public finances and more equitable means of raising government revenue."

I suggest that had the Government allowed more scrutiny of the clauses and sought consultation as per the normal procedure before they came to office, these issues might have been ironed out during the Bill's development. Instead, these negative gender impacts are squirreled away in policy papers on particular and specific clauses after it is too late to do anything about them, with the right properly to amend already denied to the Opposition by the Government through their refusal to table an amendment of the law resolution.

I hope the Minister will explain why this discrepancy has been included in the Bill and make moves to rectify it immediately. Time and again, we have called for an equality impact assessment of the Budget to flag these matters up, and every time that has been denied by the Government, who appear to want to slip these inequalities through. We will continue to hold them to account on every single one.

The amendment also relates to the matter of the Government's behaviour regarding consultation and would require a review of the revenue effects of the clause. In the policy paper on the clause, the Government list the Exchequer impact as negligible. We have heard that several times today, so will the Minister enlighten us as to what "negligible" means in cash terms? It is not necessarily going to be "negligible" on an individual basis for those affected by this proposal. It would be helpful to have a band of figures starting, presumably, at zero and going up the scale. We hope that a proper review of the revenue effects of this measure would be made available for the purposes of good practice alone. I continue to refer Members to the "Better Budgets" report helpfully provided by the Institute for Government and the Chartered Institute of Taxation. The report states that

> "the Treasury and HMRC should publish the evidence base behind measures and the assumptions on which costings are based, and ensure that these are appropriately detailed."

Clearly, that was not the case with this measure. I have already spoken to the Committee on this point, but it is essential that the Government begin to change their behaviour towards the scrutinising of legislation, especially when it places further burdens on women. These proposals have already taken their toll and will continue to do so, unless we stand up and do something about it.

3.45 pm

Kirsty Blackman: This is a process question for the Minister about going forward and ensuring that we scrutinise legislation in the best way. It would have been helpful if, in the explanatory notes, there had been some comment provided by the Scottish and Welsh Governments because both measures involve making changes that affect devolved benefits.

Given the devolved and reserved aspects of many of the matters we are discussing, I again make the case for a geographical split in the changes that the clause makes. There could have been specific Scottish, Welsh, RUK or whole UK sections, which would have made effective scrutiny easier. I emphasise that it would have been incredibly helpful to have that. I suggest for next year's Finance Bill that, if the Government make changes of this nature, they could make both changes to ensure the most appropriate scrutiny.

I am happy to support the Opposition amendment. The hon. Member for Bootle made a powerful case about the gendered impact of the social security changes of recent years and the fact that women have been disproportionately hit by them. We do not want to see those changes exacerbated by a tax system that amplifies the issues faced by women as a result of the Government's policies on social security. I am comfortable supporting the Opposition's amendment and I plead with the Minister to consider making the changes that I have requested for future years.

Anneliese Dodds: It is an enormous pleasure to be in this Committee with you in the Chair, Ms Dorries, and to make my first brief speech here. I would like clarification from the Minister on the specific issue of tax treatment of council tax reduction schemes. Subsection (5) on page 8 of the Bill refers to "a" council tax reduction scheme, stating that

> "Payment under a council tax reduction scheme"

is exempt from income tax. However, page 26 of the explanatory notes refers to

"the" council tax reduction scheme.

I am sure that colleagues will know that there is no longer one council tax reduction scheme across the UK, since central Government decided to top-slice that form of social security and devolve the design of it to different local authorities, albeit with the stipulation that the

[Anneliese Dodds]

protection should be maintained for older people. Only a very small number of local authorities still provide full council tax relief, including council tax relief for low-income families. I am enormously proud that Oxford City Council is one of those.

Central Government have washed their hands of responsibility for this benefit. They have refused to provide figures on take-up, for example, in response to parliamentary questions that I have tabled. They have also refused to provide figures on the number of low-income people now being taken to court because they cannot pay council tax, because they are no longer provided with the relief. I am not cavilling over semantics when I ask the Minister to make crystal clear that the exemption from income tax provided in the Bill will apply to all council tax reduction schemes, not to some particular version of those schemes that the Government might wish to focus on.

Related to that, I heard a very worrying rumour that the Government might seek spuriously to argue that funds spent on council tax relief for families by local authorities should not be counted in central Government's assessment of local authorities' expenditures, because they are, in theory, discretionary. I disagree fundamentally with that position, because it would penalise those authorities that support the worst off. It would be helpful if the Minister confirmed that, just as I hope he will confirm that council tax relief for families is viewed as legitimate in the Bill, and for income tax purposes, it will be viewed as legitimate expenditure when it comes to the allocation of central Government support for local authorities.

Mel Stride: I start by addressing the specific points raised by the hon. Members for Aberdeen North and for Oxford East. On the explanatory notes and the value or otherwise of a specific reference to input from the Scottish Government, I will certainly be happy to look at that in the future. I assure the hon. Member for Aberdeen North that there were significant discussions on these measures between the Treasury and Scottish officials in the appropriate manner. On the technical point raised by the hon. Member for Oxford East around "the" scheme versus "a" scheme, the information I have is that the scheme came into force in April 2013. However, I will look into her specific question about whether the measures apply to "a" scheme or "the" scheme. I am afraid that I do not immediately have an answer to that, but I will get back to her as soon as I can.

Clause 12 clarifies and confirms the tax treatment of nine social security benefits. The income tax treatment of social security benefits is legislated for in part 10 of the Income Tax (Earnings and Pensions) Act 2003, which provides certainty about existing benefits and needs to be updated when new benefits are introduced. For example, the Scottish Government are introducing five new payments following the devolution of powers, including the young carer grant, the discretionary housing payment and the carer's allowance supplement. Other payments covered by the clause have been in operation elsewhere in the UK for some time, such as the council tax reduction scheme and the flexible support fund, but are not yet covered clearly in legislation.

The changes made by clause 12 ensure that such payments are taxed appropriately, and that that is clear in legislation. The clause clarifies and confirms that such payments are exempt from tax, with one exception—the carer's allowance supplement—which is taxable. That is in accordance with "The agreement between the Scottish Government and the UK Government on the Scottish Government's fiscal framework", which states:

> "Any new benefits or discretionary payments introduced by the Scottish Government will not be deemed to be income for tax purposes, unless topping up a benefit which is deemed taxable such as Carer's Allowance."

Amendment 2 would require the Chancellor of the Exchequer to review the revenue effects of the clause and lay a report of that review before the House within six months of the passing of the Bill. Such a review is unnecessary. The Government have already published a tax information and impact note for this measure, and our assessment, supported by the OBR, is that the Exchequer effects are negligible.

On the carer's allowance supplement, which was introduced in Scotland in 2018, as a general rule benefits are taxable if they replace lost income. The carer's allowance has therefore always been taxable. The vast majority of those receiving the supplement have income below the personal allowance and would therefore not be expected to pay any income tax. That is an important point in respect of the point made by the hon. Member for Bootle. I will not dwell on each payment covered by the clause, but I reiterate that eight of these payments are exempt from taxation. HMRC has not and will not collect any tax from these payments.

As the tax information and impact note sets out, the taxation of the carer's allowance supplement is expected to have negligible Exchequer effects because, as I have said, the vast majority of those carers receiving the additional payment do not earn sufficient income to pay any income tax at all. However, any income tax receipts from that will of course go to the Scottish Government.

The Committee will also know that taxable social security income is aggregated and reported to HMRC through self-assessment after the end of the tax year. This is an important point in the context of the amendment. That income will not need to be reported until January 2020. A review would therefore be impractical only six months after the Bill's passing. I therefore ask the Committee to reject the amendment. I commend the clause to the Committee.

Peter Dowd: We will not push the amendment to a vote. However, I push the case to the Government that, while these amounts of money may be negligible to the Treasury or to HMRC, if the measure affects a particular woman who is already under the stresses and strains of helping a relative, it is important that we give them as much latitude as we possibly can. Whether we like it or not, this will be perceived as a continued attack on women who continue to be the biggest assistants to relatives—yet again, it is an attack on those people who are doing a caring role.

Mel Stride: Once again, divine inspiration has arrived and I can confirm that the CTR is a reference to multiple schemes—so it is "a" rather than "the". The measure therefore covers all those schemes.

Peter Dowd: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 12 ordered to stand part of the Bill.

Clause 13

Disposals by non-UK residents etc

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Amendment 23, in schedule 1, page 147, line 34, at end insert—

21A The Treasury must by regulations require that a list of persons not resident in the United Kingdom whose gains are brought into charge by the changes made to TCGA 1992 in this Schedule be published on a public register."

This amendment would require a public register of those subject to capital gains tax as a result of the provisions in Part 1 of Schedule 1.

Amendment 24, in schedule 1, page 147, line 34, at end insert—

21A The Chancellor of the Exchequer must review the revenue effects of the changes made to TCGA 1992 in this Schedule and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the revenue effects of the changes to capital gains tax as a result of the provisions in Part 1 of Schedule 1.

Amendment 34, in schedule 1, page 147, line 34, at end insert—

21A The Chancellor of the Exchequer must review the expected revenue effects of the changes made to TCGA 1992 in this Schedule, along with an estimate of the difference between the amount of tax required to be paid to the Commissioners under those provisions and the amount paid, and lay a report of that review before the House of Commons within six months of the passing of this Act."

This amendment would require the Chancellor of the Exchequer to review the effect on public finances, and on reducing the tax gap, of the changes made to capital gains tax in Schedule 1.

Government amendment 1.

Amendment 29, in schedule 1, page 167, line 47, at end insert—

Part 2A

Review of effects on property prices

118A (1) The Commissioners must, within three months of the end of the tax year 2019-20, provide information to the Treasury on the basis of the exercise of their functions in relation to the changes made in this Schedule about the effects of the changes on the matters specified in sub-paragraph (2).

(2) Those matters are—

(a) residential property prices in the United Kingdom, and

(b) the proportion of residential property in the United Kingdom owned by persons not ordinarily resident in the United Kingdom.

(3) The Chancellor of the Exchequer must, within six months of the end of the tax year 2019-20, undertake a review of the information supplied in accordance with sub-paragraph (1) and lay a report of that review before the House of Commons."

This amendment would require the Chancellor of the Exchequer to review the effects of the changes in Schedule 1 on residential property prices and foreign ownership of residential property.

That schedule 1 be the First schedule to the Bill.

Mel Stride: Clause 13 and schedule 1 introduce provisions, with effect from April 2019, to tax non-residents on the gains they make on UK commercial property and to extend the charge on residential property. That levels the playing field between UK resident and non-resident investors in UK land and buildings. The modern OECD model tax treaty gives the jurisdiction in which land and buildings are located the primary right to tax income and gains from those land and buildings. Historically, non-residents have not been subject to UK tax on the gains they make on UK land and buildings. That has been the policy of successive Governments over several decades. The Government have steadily revised the UK's approach in recent years. In 2013, we introduced a targeted tax on gains relating to property within the charge of the annual tax on enveloped dwellings. In 2015, the Government went further and brought in certain non-residents' gains on the sale of residential property owned directly.

Those 2013 and 2015 changes were a substantive reform to the taxation of non-residents investing in UK property. Now that the charges have been in place for several years, it is the right time to take a more comprehensive approach. Clause 13 achieves that by extending a charge to the gains made by non-residents on commercial property and expanding the scope of the existing residential charge by removing the carve-out for widely held companies. To ensure that transactions that are essentially sales of UK land are taxed, and to reflect the commercial reality of many large property transactions, the clause introduces a charge on indirect disposals of UK property. That charge will apply to gains made on the disposal of an interest in an entity that derives 75% of its value from UK land.

The Government recognise that these reforms are extensive, and recognise the value that investment in UK land and buildings brings to the United Kingdom. The clause implements the rules in a way that minimises disruption and avoids unintended consequences. Non-resident companies will pay corporation tax on all the chargeable gains they make on UK land and buildings, creating a single cohesive set of rules. Those taxpayers who are exempt from UK tax on the gains that they make for reasons other than their residence, for example pension funds and qualifying charities, will continue to be exempt. Steps have been taken, using principles currently applied to UK funds, to ensure that these and other investors are not disadvantaged where they invest in UK property via funds.

In legislating for this policy, the clause restates, in a simplified form, the main charging provisions for the taxation of capital gains. Other than implementing the policy, this makes no changes to the existing law. It significantly and permanently simplifies the legislation and aids taxpayers' interpretation of the law.

Government amendment 1 will remove a redundant subsection of the Corporation Tax Act 2009. That subsection currently ensures that corporation tax is not charged on gains that are subject to capital gains tax. As I have set out, clause 13 will introduce a single cohesive set of rules charging companies corporation tax on all the chargeable gains they make on UK land and buildings, which means that this subsection is no longer required.

Amendment 23 would require a public register of those subject to capital gains tax as a result of schedule 1. The categories of person who will be brought into scope

[Mel Stride]

by clause 13 and schedule 1 are absolutely clear. I have set that out to the Committee today and it is set out in detail in the schedule. The Government do not, as the amendment would require, identify specific individuals or companies that are brought within the scope of particular tax charges; it would be inappropriate to do so.

4 pm

Amendments 24 and 34 would require a review of the revenue effects of the changes to capital gains tax as a result of the schedule and the impact on reducing the tax gap. The OBR-certified Exchequer impact for the measure was updated and published in table 2.2 of Budget 2018. Like all tax changes, the fiscal impact of this clause and schedule will be monitored and subject to revaluation where appropriate. In addition, HMRC already publishes annual updates on its tax gap analysis, which will reflect the effect of capital gains tax changes.

Amendment 29 would require a review of the changes made by schedule 1 in relation to residential property prices and foreign ownership of residential property. The intent of the measure is to level the playing field between UK and non-UK-resident investors in UK property. The impact on the market was carefully considered in the design of the policy and will be monitored following implementation of the measure. The OBR made no adjustment to its property price forecasts as a result of the policy.

The Government therefore reject the amendments, and I commend the clause to the Committee.

Anneliese Dodds: I am grateful to the Minister for that explanation. As he stated, this clause and schedule are intended to perform a variety of functions to level the playing field—the number of times that he used that phrase was interesting—between UK and non-UK residents when it comes to the payment of corporation and capital gains tax on gains from disposals of interest in UK land. They include, as he mentioned, the removal of the charge to tax on ATED-related gains, with ATED standing for the annual tax on enveloped dwellings. As was mentioned, these changes follow on from the imbalance in the tax treatment of the disposal of interests in property by individuals as against companies, artificial or otherwise, which has been gradually rectified over recent years.

Part 3 of the Finance Act 2013 introduced ATED as a principle and the concept of enveloped dwellings so that there would be a capital gains tax charge on non-natural persons who had owned properties worth more than £500,000, subject to a range of exemptions. That was followed three years ago by the extension of capital gains tax on gains arising on the disposal of UK residential property interests by certain non-resident persons, including individuals, trustees and closely held companies. However, that was not accompanied by a levelling of the playing field in relation to non-residential property wealth—land and commercial property—until now, although for reasons that I will explain, these measures are wanting in their current form, in particular because they involve a so-called trading exemption, to which I note the Minister, unless I misheard him, and he is normally very clear, did not refer in his comments. I shall speak first about that main and very significant problem with the clause and schedule, before moving on to describe the amendments in relation to them.

In an ideal world, we as the Opposition would have sought to remove the trading exemption for enveloped structures to avoid capital gains tax. Indeed, that is what some of the amendments that we had tabled set out to do. I completely understand why they were ruled out of order. There is absolutely no criticism of the decision to do that. I am sure that it was because of the restrictions imposed on us because of the Government's failure to table an amendment to the law resolution, which my hon. Friend the Member for Bootle has already referred to. However, that trading exemption threatens to emasculate this measure.

I am sure that members of the Committee will be aware that almost all the measure's projected yield is expected to derive from non-resident companies when they dispose of UK commercial property such as offices, factories, warehouses, shops, hotels, leisure facilities and agricultural—

The Chair: Order. Amendments 26 and 27 were not selected because they are charging, not because of a lack of an amendment of the law resolution.

Anneliese Dodds: I am grateful for the clarification. I am sorry if I got the situation wrong, and it is helpful to have heard that. However, I understand that it is appropriate for me to discuss the substantive matters in the clause, even if we do not have amendments tabled on them. Other hon. Members have done that, so I will continue to do so before I move on to my amendments, if that is acceptable. I am sorry if I mischaracterised the position and the decisions that were taken.

The Chair: That is fine.

Anneliese Dodds: To continue with reasons why the trading exemption is illegitimate to our mind, as I mentioned before, the yield that has been described as arising from the measure is expected to derive from non-resident companies disposing of the whole range of different types of UK commercial property that I listed. Unlike residential property, most of which is owned by individuals, almost all major UK commercial property is held by large corporates or collective investment schemes or trusts.

Those large corporate investors in property are sometimes known as property envelopes, which reflects the fact that the companies' principal purpose is to operate as a synthetic wrapper for owning land. Since the property envelope has full title to the land, any individual or other corporate owning the property envelope—for example, by owning its shares—is the ultimate or indirect owner of the underlying land.

Typically, when selling the property, the ultimate owners do so indirectly, by selling their interests in the property envelope, rather than by a direct sale of the property itself. That form of disposal is often known as an envelope disposal, since the property envelope has full title to the land, and the transfer of its shares to a new owner is tantamount to a conveyance of the property to new ownership. There are often tax reasons for that form of conveyance, since the transfer of shares, rather than land, does not attract any stamp duty land tax charge, which results in a substantial saving for the purchaser.

Recognising that situation, the consultation on the proposed measures proposed charging non-UK residents capital gains on disposals of their interest in property envelopes in the same way as if they had sold the actual land. The consultation document proposed that a property envelope would be defined as a property rich entity if it had UK property assets that represented 75% or more of the value of the entity's total assets, as the Minister mentioned. Given that the vast majority of high-value UK commercial property is owned through a property envelope, that element of the rules, which I will refer to in future as the anti-enveloping rule for ease of discussion, is critical to the measure securing significant yield.

In response to the consultation responses that the Government received, the draft legislation includes an exception to the charge on disposals of property envelopes if the property owned in that envelope is being used in an ongoing trade that continues after the disposal takes place. In effect, that means that non-residents who make a disposal of shares in a property envelope will not be subject to any charge, provided that the property is being used for a trade.

That condition will be met if the property is being used as an office, a factory, a warehouse, a shop, a hotel, a leisure facility, in a farming trade or for any other similar commercial purpose—I am sure the Committee gets my drift. As such, the exception is surely entirely contrary to the stated rationale for the measure, which is to ensure that non-residents are taxed on gains from the disposal of commercial property in the same way as UK residents. Again, I remind the Committee that the Minister used the phrase "having a level playing field" several times in his remarks. Commercial property will, almost by definition, be used in a trade.

I am sure that the entire Committee will be scratching their heads and asking why the change occurred. Well, there were 120 respondents in all to the consultation, a number of which focused on one question only, many of which came from the most significant actors in this arena, namely the big four and large property concerns, including representatives from the real estate and collective investment scheme sector.

The Government response to the consultation states:

"Many respondents were concerned by"—

what they described as—

"the 'cliff-edge' nature of the 75% property richness test. They noted that fluctuations in the value of property and other assets could lead to cases where an entity strayed in and out of property richness. Some were concerned that real-estate rich trades such as retail and hotel chains and utility companies could fall to be property-rich, or that investors in these trades might be concerned that they were, and be forced to go to lengths to explore the rules and test their situation, often finding that there was no impact. To ameliorate this, a number of respondents asked for a trading exemption to make it simple for smaller investors to understand when the rules did not apply to them. They noted that the main policy aim was to tax UK land, not interests in retailers or utility companies."

The Government response went on to say that,

"the government will agree to add a trading exemption. When a disposal is made of an interest in an entity that is trading both before and after the disposal, as for connected parties under the Substantial Shareholdings Exemption rules, then it will not be considered to be an indirect disposal of an interest in UK land"—

That is, it will not be treated as an enveloped disposal.

"Although the government does not intend to provide a specific exemption for infrastructure, a trading exemption should also deal with instances where the infrastructure disposed of is in use as part of an ongoing trade being disposed of alongside it in the arrangement."

Surely, that exemption will undermine the overall intent of the measure. First, the main target of the legislation is enveloped disposals of commercial property made by non-residents. Almost all commercial property will, as I mentioned before, by definition, be used in a trade. The examples of commercial property given in the consultation document—offices, shops, industrial units and hotels—are all examples where the property is used in a trade, yet these disposals will be outside the scope of the new rules, provided that the sale is an enveloped one, and that the trade continues under its new ownership.

That is in clear contrast to the situation for UK residents. An equivalent disposal made by a UK resident is chargeable to tax, unless it meets specific conditions laid out in those substantial shareholding exemption rules—the SSE rules, which the consultation response referred to. The original consultation document was clear that non-residents would be able to benefit from the substantial shareholding exemptions in the same way as UK companies. However, the response document, as I just described, goes further than that: it grants a blanket exemption available only to non-residents and in circumstances much wider than the SSE.

Frankly, I very much doubt that many property envelopes or large investors involved in them would go to the lengths of requiring ongoing trades in their ownership—say, a popular hotel—to close while they are selling that commercial property, just so that they can have the joy of paying stamp duty land tax. If the Government think otherwise, perhaps they can enlighten us, but I think the chances of that are fairly slim. That appears to be what would be necessary in order for them to be caught by this measure. Perhaps the Minister can enlighten us, if I have got that wrong.

This trading exemption undermines any claim that the measure creates a level playing field with comparable UK businesses, and also provides an avoidance opportunity that, worryingly, even UK businesses could exploit, if they arrange for their UK property to be held through chains of offshore envelopes. That is surely something that our Government cannot stand by and facilitate, yet they seem to be doing so—albeit unwittingly, I am sure.

The Government's stated reason for making this change is to help smaller investors, but if that is the aim, surely it would be more appropriate to include an explicit small-investor exemption that would not apply to larger capital gains.

4.15 pm

We therefore believe that this trading exemption is very concerning. Our hands are tied, but it is important for the Minister to explain whether he shares our characterisation of this exemption and its potential damage to the overall intent, as he has described it, of levelling the playing field.

That is the most significant lacuna in this measure, but our amendments would deal with other weaknesses, specifically our amendment 23 on a public register, amendment 24 on revenue effects and amendment 29 on property prices and ownership. I will also mention the SNP's amendment 34, which we support.

Amendment 23 would require the Treasury to require that a list of persons not resident in the UK whose gains are brought into the charge by the changes made in this schedule should be published on a public register. I thought that in discussion of this amendment the Minister would state that the Government were due to introduce a register of foreign-owned property. He did not, but I appreciate that he took another tack in his rejection of the amendment. We still believe that it is necessary for the Government to provide that register, and believe it is disappointing that the timetable for that register has been pushed back. We have made it very clear that it would meet no opposition from us, so it could be introduced far more expeditiously than, it would appear, the Government currently wish.

However, while we wait for that property register to be produced, we surely need to use every mechanism to ensure more transparency in this field. In that connection, it would help if the Minister explained more of his Government's thinking on one of the assumptions in the measure—that it is not intended to encourage onshoring to the UK, but to create a level playing field for offshore and UK investors. That was in the context of not accepting calls from respondents to the consultation for SDLT seeding relief as an incentive to encourage investors to move their property out of offshore jurisdictions and onshore. I agree that it would not be sensible to extend seeding relief in that manner. However, it would be helpful to understand what, if anything, the Government intend to do otherwise to encourage onshoring. This is surely something that the Government should be considering more seriously, in a context where there are clear indications that the high-end property market—and indeed commercial market—in many areas is increasingly dominated by companies that are located offshore, sometimes as a route towards money laundering.

Private Eye and Transparency International UK have led research in this area. Some of the data they have uncovered is alarming. Research by Transparency International UK has shown that in London alone, over 39,000 properties have offshore owners, who in many cases are totally non-transparent. Even just looking at publicly available material, they find that over £4.2 billion-worth of London property has been bought by individuals and companies who could legitimately be classified as posing risks of money laundering. We believe that amendment 23 would help us some of the way towards the transparency that we require.

Our amendment 24, on the other hand, requires a review of the revenue effects of the changes made to the Taxation of Chargeable Gains Act 1992 in schedule 1, and requires the Chancellor to lay a report of that review before this place within six months of the passing of the Act.

Will the Minister please indicate which tax information and impact note relates to these measures? He mentioned OBR modelling in the Budget in his remarks, which was very helpful. However, I do not know whether other colleagues have had this problem when they have been looking carefully at the different clauses in the Bill. The tax information and impact notes on the list under the heading of Finance Bill 2018-19 under different dates on the Government website are not specifically then mapped on to different clauses. It is quite difficult for the Committee to work out which TIN relates to which measure. Initially, I thought the relevant TIN could be that on capital gains tax and corporation tax on UK property gains, but it turns out that is the TIN for the following clause, which we are just about the debate, and its schedule—clause 14 and schedule 2. I then thought the relevant TIN might be that concerning corporation tax on UK property income of non-UK resident companies, but that actually refers to measures regarding non-UK companies that own UK-resident property companies, so something very different. Perhaps the Minister can let us know which TIN we should be reading for this measure, but above all—beyond whichever TIN this Committee should be looking at—we surely need a much more thorough analysis of the revenue effects of these measures, in order to analyse them properly; hence our request to the Committee in amendment 24.

Amendment 29 would require an examination by the commissioners of the impact of the measures that we are considering here on both residential property prices in the UK and the proportion of residential property in the UK owned by non-residents. Clearly, there is a need and a place for non-UK investment in UK property, both residential and commercial; we absolutely accept that. However, we need to understand far better how particular types of investment might have impacted on both housing prices and ownership.

The Minister referred to the OBR's analysis, but it is important that we have a wide sweep of evidence before us on this matter, so I very much encourage colleagues to look at the research by Dr Filipa Sa at the London School of Economics. She has specifically considered the impact of foreign investment in property on both price and availability, and the evidence is startling. Members will be well aware that the average English or Welsh house has almost tripled in value in the last 15 years, albeit with very significant variation between areas. Of course, alongside changes to social security and the lack of measures to boost the supply of genuinely affordable housing, that has led to the housing crisis that we see today.

The impact of foreign investment on prices is clearly very significant in some specific areas, such as Kensington and Chelsea, where the average—the average—house price was £1.3 million back in 2014; I bet it is far, far higher now. However, Dr Sa's research shows that there has been a trickle-down effect from rising prices in London, such that there has often been an upwards trajectory elsewhere too, including in major cities such as Manchester and Liverpool. Overall, Dr Sa's research suggests that if there had not been any foreign investment in residential property in England and Wales between 2000 and 2014, housing prices would be nearly a fifth cheaper—19% lower—than they are now.

Dr Sa states:

> "Housing costs form a big part of households' budgets and so they are a concern for a large portion of the UK population.
>
> One of the issues on people's minds"—

her words, not mine—

> "is that foreign investors are buying properties with the purpose of making money as opposed to creating a home to live in and that this is pushing house prices up.
>
> This research shows that foreign investment in the UK housing market does, indeed, play a part in the increase in house prices that we have seen in the last two decades."

None the less, she makes it clear that domestic demand is also outstripping supply and having an impact on price, as I am sure we are all aware as constituency MPs.

Dr Sa has made reference to action being undertaken on this issue in a number of other countries, including Australia, Switzerland and Canada, and it would be helpful to know whether the Government considered their examples in drawing up these measures, and if so, whether they considered some of the potential issues that there may be with the matters that we are examining just now. Above all, it would be very helpful for the House to be provided with evidence about the suggested impact of these measures specifically on the level of non-UK ownership of residential property and the price of that residential property, which is so prohibitive for many people.

I move on to the SNP's amendment 34. I am sure SNP Members will speak to it in a moment. However, I will speak briefly in its support. It states:

"The Chancellor…must review the expected revenue effects of the changes"

caused by these measures.

As the Committee knows—indeed, as we discussed last week in the Committee of the whole House—there is a lively discussion about whether the Government's current methodology for assessing the tax gap is the correct or appropriate one, given that it does not include tax lost due to legal loopholes but only considers tax lost due to a failure to stick to the letter of the law, and in addition it does not cover profit-shifting by multinationals. None the less, it is important to investigate strict legal compliance, and on that basis I am concerned about the provision detailed in paragraph 11 of schedule 1—the so-called anti-forestalling clause.

Respondents to the consultation expressed concern that those seeking to avoid the changes could simply shift their interest to jurisdictions that do not facilitate UK taxation of UK property-rich entities, as is the case with the UK-Luxembourg tax treaty.

This would then result in double non-taxation of capital gains. Rather than follow suggestions made by respondents to the consultation, the measures simply aim to prevent actions contrary to the intent of existing treaties.

It is unclear to me whether this is sufficiently watertight to prevent such avoidance activity. I think the amendment from the Scottish National party might help us to test that out. Is the concept of following the spirit and intent of tax treaties really enough to prevent those seeking to avoid tax using legal niceties and the exact wording of treaties?

We need more clarity on the issue before we can accept that the measure is sufficiently tightly drawn to prevent current anomalies in the tax treatment of non-UK, as against UK, residents. How, in particular, will the intent of the treaty be interpreted and by whom? I believe we need more information about his matter.

It seems to me, belatedly, that there could be some very creative avoidance undertaken when it comes to the anti-enveloping rules, which to my mind would not be caught by the Government's definition of the tax gap. Perhaps the Minister can enlighten us, if I am wrong.

The draft legislation that was published in July 2018, alongside the response document, includes a minimum ownership requirement before the anti-enveloping rule can operate: the rule can apply only if the non-resident owns 25% or more of the property envelope. Although that was proposed in the original consultation document—I accept that Government have not gone back on something they said before—concerns have been expressed to me that this could undermine the level playing field, which the Government have stated underlies their commitment to the measures.

The objective of the 25% test is reasonable, to exclude those non-residents who might not have sufficient information about their assets in the property envelope to know whether the 75% property richness threshold is met. As the response document states:

"If a person has 25% or more of the interests in an entity…it would be expected that the investor has made that investment in the knowledge of what the underlying assets and income sources of the entity are."

However, if someone makes a major monetary investment in an entity, they will also surely do so only in the knowledge of those assets, even if that investment results in their having less than 25% ownership of the entity. We can think of this in relation to an example. Let us assume there are five investors each disposing of their 20% stake in a UK property envelope. If the property increases in value by £100 million, each investor would pretty obviously realise a gain of £20 million.

Existing law means that UK-resident investors will each be chargeable on that gain of £20 million. However, the 25% ownership requirement for non-residents means that non-resident investors will not be charged on any gain, even though the scale of the investment means that it will have been made, surely, in full knowledge of the entity's assets. That will mean that non-residents will continue to have a significant advantage over UK investors.

I would be grateful if the Minister could inform us whether his Department has had any discussions on the subject of whether there could be a limit on the gain that could benefit from this exemption. Surely, anyone who ends up with a gain of £1 million or more would only have made their investment in full knowledge of its nature. If not, quite frankly, to use a phrase from my part of the world, they have got far more money than sense.

Was that kind of limit considered previously? If not, would the Minister consider coming back with a future Bill to introduce it if there is widespread evidence of UK investors being taxed more than non-UK ones because of the 25% limit? As mentioned, will he also confirm whether such creative structuring—if we can call that—falls within or outside the definition of the tax gap?

Finally, I have one last question for the Minister. Given that concern was expressed by many respondents to the consultation that pension funds could be inadvertently caught by the new system, could he provide more detail? I am aware of the different parts of the schedule, in particular those that refer to pension schemes and the need to exempt them. Will he provide us with more information about whether they are completely watertight?

I am sure many members of the Committee would not want to promote UK pension funds' desire to invest in the UK real estate market through offshore funds. However, given that consultees raised that frequently, it would be helpful to hear a little more than the Ministers understandable assertion that they will not be covered.

4.30 pm

Kirsty Blackman: I will speak relatively briefly. It is always difficult to follow the hon. Member for Oxford East, who is leading for the Opposition on these measures. I concur with her comments about the Labour amendments—the Scottish National party will be happy to support them. Foreign ownership of properties and the impact on price is pertinent and relevant to the SNP proposal.

On amendment 34, the explanatory notes are incredibly difficult to follow. By the time we get to "ggg" in the explanatory notes, things become very difficult to refer to. If there is another explanatory note of that length in future years, it would be useful if the staff could come up with a better numbering system. As I say, it is difficult to refer to those sections when we are going around the alphabet for the third time.

The public register proposed by Labour is an interesting idea and, in principle, the Scottish National party is in favour. As I said, transparency is important when encouraging everybody to pay the correct amount of tax, because if tax owed is publicly known—the calculation of the tax gap is pertinent to this topic—people are more likely to pay. The Government should say clearly, "This is the amount of tax owed, this is how hard we are chasing it down and, as a result, this is the tax gap." It bothers me that the Government say regularly that the UK tax gap compares favourably with that of other countries. It does not matter whether it compares favourably with other countries: any tax gap is a bad thing and, if one exists, the Government clearly need to work to ensure that they are reducing it as far as possible. Given the issues that have been brought up by Opposition Members and by many external organisations, it is clear that the Government could do more to reduce the tax gap. It is not good enough to say, "We are doing quite a good job, and therefore we should stop here." The Government need to be able to say, "We are doing the best job on reducing the tax gap that we possibly can."

On foreign ownership and the residential property price, I was disappointed that the Labour amendment on landholdings was not accepted—I understand the reasons why it was not allowed, but I would have been keen to debate it. There are specific Scotland-related issues not so much about residential property—that is an issue in Scotland but not to the same extent as it is in London—as about other landholdings. That is a significant problem in the Scottish context. Foreign ownership of those landholdings concerns a huge number of people in Scotland.

Regarding the benefits of transparency, the SNP has called for measures to reduce tax avoidance, and the Government have talked a good game about things like Scottish limited partnerships after a huge amount of pressure from the Scottish National party. However, we are still waiting for action. If the Government say they are doing positive things to reduce tax avoidance, they need to follow through. Rather than just producing a consultation, they need to take the required action to reduce the numbers of people who are abusing Scottish limited partnerships. We need the Government to be seen to be serious in this regard, and to take the action they have promised to take. The House operates on trust, and throughout my time in this place, I have seen a number of Opposition amendments withdrawn because ministerial teams from all Departments have given assurances. If the Government do not take action soon on Scottish limited partnerships, they risk seriously eroding that trust and may end up in a situation in which ministerial assurances, and particularly assurances from Treasury Ministers, are not accepted because the Government have not followed through previously.

The income tax, national insurance contribution and capital gains tax gap sits at about £13.5 billion, which is a significant amount of money. If any changes are being made to those taxes, and particularly to CGT, it is reasonable to ask about the impact on the tax gap, and reasonable for the Government to have those figures at their fingertips. They should be able to say not just what the impact is on the total tax take from any changes, but also what the impact is on the tax gap.

If the Government are talking about cracking down on tax avoidance, it is important that they prove to us that the tax gap is being reduced. It is not good enough to just say, "We think this measure will reduce tax avoidance." The Government need to tell us by how much they will reduce tax avoidance. They need to be clear on the impact of those changes before they introduce them.

I intend to push amendment 34 to the vote if we have the opportunity to do so. I would be happy to support the Labour party on their amendment. I would also like to seek further assurance and a clarification from the Minister in relation to the pursuit of tax avoidance reduction measures, and a commitment from him that the Government will follow through on the tax avoidance reduction commitments they make today.

Mel Stride: I thank the hon. Members for Oxford East and for Aberdeen North for their contributions. I compliment the hon. Member for Oxford East on arraying a mass of highly technical questions on a very technical area. I will do my best to answer her them, but I will write to her accordingly if I am unable to do so. She accurately mapped out the process that we have been going through for a number of years, moving into the space of the appropriate taxation of non-resident entities when it comes to property transactions. She recognises, as I do, that it is the right direction of travel, and that it is right to introduce the measures set out in clause 13, although she has several concerns about the detail.

The hon. Member for Oxford East dedicated a specific section of her remarks to the issue of property-rich businesses and the trading exemption. She gave some examples where she felt that this would be an inappropriate exemption, around both the general principle of the exemption for trading purposes and the specific threshold figure of 75%. She used the expression "cliff edge" to refer to what there might be around that number.

On the basic principle, this measure seeks to avoid the circumstances whereby a business—a significant supermarket chain, for example—might be sitting on a substantial amount of land and might even have banked some land for future development. However, the business's principal purpose is the purchase and sale of a variety of goods, with that being the core of the particular business being looked at. Were a sale of that business under those circumstances to occur, it would seem appropriate that the investors in that business—where it was consequently below the 75% threshold—would not fall within the measures due to the taxation measures that we have been considering.

As to the specific figure of 75%, it is the same issue as the 25% threshold figure that the hon. Member for Oxford East raised in relation to whether individual investors would fall within these measures, or whether they would be expected to know or not know about the property richness of the business in which they were investing—we inevitably run into a generalised problem with figures, which is that we have to choose one. There will always be a debate about whether 75% is the right figure, or indeed 25%. However, a figure has to be applied, to make it scientific and rigorous.

Then there is the question of what we have done to ensure that 75% and 25% are the right figures, as opposed to figures that we have just plucked out of the air. That leads us to the extensive consultation that has been undertaken in respect of the Bill, with some 80 responses around the measures raised by the hon. Member for Oxford East. As I would say of all tax measures, this one included, they are kept under continuous review by the Treasury, so it is quite possible that we will return to these matters in future legislation, specifically on the issue of thresholds.

The hon. Member for Oxford East spent some time referring to the amendments and the question of whether there should be a register of those who fall within the scope of these capped measures. There is a basic principle here that just feels right to me, which is that the Government should not be in the business of holding up individuals to the public as falling due for particular types of tax. Once you start moving into that kind of space, it feels rather disproportionate and a little authoritarian, if I may say so. It is right to resist that urge.

I was going to raise one other matter in that context, which is important, and that is that the hon. Member for Oxford East referred—she very kindly did this for me although I did not do so in my opening speech—to the implementation of a register of beneficial owners of overseas entities owning or buying property in the UK. We will bring that in by 2021, and the register will be the first of its kind in the world. That underscores the importance of transparency to this Government.

Sir Robert Syms: Is the amount of revenue raised in this area more or less than was raised under the previous Labour Government?

Mel Stride: If I interpret my gallant and hon. Friend's question as relating to the specific issue of overseas holdings of UK land and properties and paying CGT on the transactions they are in, I would be fairly confident in saying that we will be raising more. Indeed, through time and through dealing with the measures I identified earlier, I strongly suspect that the answer is yes. I am seeing nods of an inspirational kind from over my left shoulder, so I can reassure him that is indeed the case.

The hon. Member for Oxford East also raised the effect of these measures on the market and the suggestion of a review to look at price effects. The Office for Budget Responsibility has already done such an analysis and concluded that these measures would have a negligible effect on price. She also raised the issue of taxation treaties, particularly Luxembourg, which is a fair point because there are instances when the international taxation treaties—the bilateral treaties between ourselves and other tax jurisdictions—do not quite fully accommodate the measures we are looking at here. I know we are actively engaged in the specific case of Luxembourg to seek changes to those arrangements to make sure they facilitate the measures we are looking at here.

With regard to TIINs, I must say that I do not have the same confusion as the hon. Member for Oxford East. I am not making a specific point, other than that I have not noticed it, but I will look at it again. The relevant TIIN is the one entitled "Capital gains tax and corporation tax: taxing gains made by non-residents on UK immovable property", which was last updated on 7 November 2018.

The hon. Member for Aberdeen North had several points to make, particularly about the tax gap. She suggested that there might be some complacency on the part of the Government, and that it might be assumed that, because we already have a world-beating tax gap level, we are not pushing forward with further measures. I can reassure her that that is not the case. Indeed, the Bill contains several measures that further bear down on the tax gap, of which this is one. It will build our tax base and further enhance our ability to raise tax, which of course is very important. The point I would make is that we have both the legislation, some of which I have referred to, and several other practical measures that the Government are bringing in that are driven by HMRC—for example, making tax digital, which is an approach to bearing down on the tax gap when it comes to the operations of smaller companies in the United Kingdom.

I hope that has covered the majority of the issues raised, but I would be happy for the hon. Members for Oxford East or for Aberdeen North to write to me if they would like me to respond to any other issues.

4.45 pm

Anneliese Dodds: I am grateful to the Minister for those comments, but I would like to clarify a few points, so that we are not talking at sixes and sevens. In relation to the trading exemption, the point is not that it would exempt certain categories of business as opposed to others, but that it would exempt those businesses that are trading before and after the disposal, so it introduces a new concept that is not applied to UK-resident investors to the same extent. That is what is relevant, rather than whether we are talking about a supermarket or not. That would be relevant to the property richness test, but the trading exemption is a separate element of the Bill that I was trying to push on.

In relation to the 25%, the Minister always valiantly attempts to support his Government's policies. He is right that a figure must surely be attached to any numerical proposition in a Bill. He tried to do that here and said that 25% had been arrived at. The suggestion was that any figure could be contested. Again, it is not the specific value of that figure that is problematic, but what the figure refers to. My contention was that the Government should focus not necessarily on the proportion of the gain, but on the value of the gain. His Government have decided to focus not on the value but on the proportion. As I said, 25%—or rather, 20%—of a gain could be £1 million, which is a tremendously large value, but it could be a smaller proportion if it is just 20%.

Kirsty Blackman: Does the hon. Lady agree that having both of those in the Bill would be useful, so we could have the 25% figure or gains over £200,000, or any such figure as the Government deemed appropriate?

Anneliese Dodds: The hon. Lady is absolutely right. The Government are quite keen on double thresholds in other contexts, so this is a case where a double threshold could be introduced if they were concerned about protecting those small investors. One could have both a measure related to the proportion of the gain and one related to the value of the gain. That could be very sensible.

I am grateful to the Minister for his comments on tax treaties, but I was trying to get at whether he feels that the reference in the legislation—I cannot remember the exact term used in the explanatory notes, but it is something like referring to the "intent" or "spirit" of the tax treaty, rather than the letter—is sufficiently legally watertight. I am concerned that it would not be, because many people who have moved their tax affairs to Luxembourg to avoid tax are quite adept at reading just the letter and not conforming with the spirit, when they want to.

Finally, in response to the question from the hon. and gallant Member for Poole—

Sir Robert Syms: I am not gallant.

Anneliese Dodds: I am a new Member and I am always getting my fingers rapped about how to refer to other Members. I never want to upset anyone, so I hope I have not upset the hon. Gentleman.

If we look at the proportion of the commercial property market owned by non-UK investors, we see that there has been a change over time. We should surely consider that when we look at the impact or otherwise of Government policy, as well as the absolute amount of tax revenue that will go up since absolute figures go up because of inflation and so on. I do not wish to try the patience of the Committee, so we will not press our amendments to a vote.

Question put and agreed to.

Clause 13 accordingly ordered to stand part of the Bill.

The Chair: Ms Blackman, do you wish to move amendment 34?

Kirsty Blackman: I am willing to try the patience of the Committee in this instance.

Amendment proposed: 34, in schedule 1, page 147, line 34, at end insert—

"21A The Chancellor of the Exchequer must review the expected revenue effects of the changes made to TCGA 1992 in this Schedule, along with an estimate of the difference between the amount of tax required to be paid to the Commissioners under those provisions and the amount paid, and lay a report of that review before the House of Commons within six months of the passing of this Act."—*(Kirsty Blackman.)*

This amendment would require the Chancellor of the Exchequer to review the effect on public finances, and on reducing the tax gap, of the changes made to capital gains tax in Schedule 1.

The Committee divided: Ayes 9, Noes 10.

Division No. 10]

AYES

Black, Mhairi
Blackman, Kirsty
Charalambous, Bambos
Dodds, Anneliese
Dowd, Peter
Lewis, Clive
Reynolds, Jonathan
Smith, Jeff
Sobel, Alex

NOES

Afolami, Bim
Badenoch, Mrs Kemi
Ford, Vicky
Jenrick, Robert
Keegan, Gillian
Lamont, John
Stride, rh Mel
Syms, Sir Robert
Whately, Helen
Whittaker, Craig

Question accordingly negatived.

Amendment made: 1, in schedule 1, page 164, line 16, at end insert—

"108A In section 2 (charge to corporation tax), omit subsection (2A)."—*(Mel Stride.)*

Schedule 1, as amended, agreed to.

Ordered, That further consideration be now adjourned.—*(Craig Whittaker.)*

4.54 pm

Adjourned till Thursday 29 November at half-past Eleven o'clock.

Written evidence reported to the House

FB01 Association of Taxation Technicians (Clause 31 and Schedule 12: Temporary increase in Annual Investment Allowance)

FB01a Association of Taxation Technicians (Clause 14 and Schedule 2: Disposals of UK land etc: payments on account of capital gains tax)

FB02 Chartered Institute of Taxation (clauses 7, 11 and 81 (all in the area of employment taxes))

FB02a Chartered Institute of Taxation (clause 13 and schedule 1: Disposals by non-UK residents etc)

FB02b Chartered Institute of Taxation (clause 25 - Intangible fixed assets: exceptions to degrouping charges etc)

FB02c Chartered Institute of Taxation (clauses 29 to 34 - capital allowances)